

BUDGET REFORM PROPOSALS FOR THE 111TH CONGRESS

HEARING BEFORE THE COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES ONE HUNDRED TENTH CONGRESS

SECOND SESSION

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BUDGET REFORM PROPOSALS FOR THE 111TH CONGRESS

THURSDAY, SEPTEMBER 25, 2008

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to call, at 2:07 p.m., in room 210, Cannon House Office Building, Hon. John M. Spratt, Jr. [Chairman of the Committee] presiding.

Present: Representatives Spratt, Becerra, Doggett, Etheridge, Baird, Moore of Kansas, Garrett, Conaway, and Jordan.

Chairman SPRATT. Let us proceed with the hearing. The work of the 110th Congress is not yet finished. We still have work to do, lots of it. At the same time, we need to look ahead to the challenges that await us when Congress convenes in January of next year.

So to that end, we consider today some of the proposals for reform of the budget process that the next Congress may wish to consider.

Just two weeks ago, we received CBO's latest budget projections and they portrayed a daunting set of challenges. Yesterday we heard again from CBO about the President's request for \$700 billion. The slump in our economy along with the cost of the rescue package will only make the deficit grow larger.

One of the important budget questions that faces the new Congress is whether or not there are changes in our budget process that could be useful in producing a better budget.

The budget process includes procedures established in statutes and rules that aid in considering and implementing fiscal policies. The foundation of the budget process is "The Congressional Budget Act of 1974."

And we are all familiar with budget enforcement measures that have been subsequently passed by Congress, "The Balanced Budget and Emergency Deficit Control Act of 1985," also known as Gramm, Rudman, Hollings, "The Budget Enforcement Act of 1990, 1991," which established pay as you go and discretionary spending caps, and, of course, "The Balanced Budget Agreement of 1997."

More recently, the current Congress put some budget process rules in the House rules package adopted in January of 2007 at the outset of this session. New rules include a pay as you go provision for legislation considered by the House as well as a provision prohibiting the fast-track reconciliation process from being used to increase the deficit.

During the next Congress, we will need to decide if we want to take further steps and, if so, how we forge a consensus about what those changes should be.

We have had previous hearings focused on two particular proposals, one on pay as you go, statutory pay as you go, another on the concept of an entitlement commission.

At today's hearing, we are going to broaden the discussion and hear from witnesses about a much broader, wider array of reforms. Among the proposals to be discussed today are some ideas that have come up in our Committee previously, the idea, for example, of an appropriations lockbox which Mr. Conaway on our Committee, among others, has been an advocate for, and various changes to House rules in a bill introduced by Mr. Shuler.

After Mr. Jordan's opening statement, I am going to recognize Mr. Conaway if he is here for an opening statement if he wishes to make one.

And I am going to ask for unanimous consent to include in the record a statement from Congressman Heath Shuler who has introduced an important budget process reform bill and very much wanted to be in the hearing today, but, unfortunately, he had to be in his district to address the serious gas crisis facing his constituency.

We will then hear from a distinguished panel of witnesses, Richard Kogan, an alumnus of this Committee and a long-time veteran of the budget process; Maya MacGuineas, President of the Committee for a Responsible Federal Budget; and Eugene Steuerle, Vice President of the Peter G. Peterson Foundation.

We welcome all of our witnesses and look forward to the testimony.

Let me first turn to and yield to Mr. Jordan for any opening statement he may wish to make.

Mr. JORDAN. I thank the Chairman.

I want to thank Chairman Spratt for holding today's hearing, particularly with this extraordinarily busy, challenging, and possibly final week of session for this Congress.

We on the Republican side agree with our friends on the Democratic side about the need to reform the budget process so that we can better address the fiscal problems facing our country. We all want a fiscally responsible budget and I am hopeful that today we can start a bipartisan discussion of ways to fix the process so it can help us achieve these goals.

I believe the first step is finding better ways to control discretionary spending, in fact last year offered a series of zero growth amendments that would have lowered this year's baseline of over \$20 billion. I also introduced legislation designed to create a Grace Commission 25 years after President Reagan launched the first one.

In addition to looking at the Blue Dogs reforms and other ways to add transparency and accountability to the process in the short term, we must also consider what we can do to ensure Congress takes control of entitlement spending over the long term.

Most Americans would be shocked to learn that over half of the federal budget and our nation's three largest entitlement programs, Medicare, Medicaid, and Social Security, simply run on autopilot.

The only actual budgeting we do to these entitlements is to include in the baseline whatever CBO tells us that they are projected to cost. There is no annual setting of priorities, no decision making, and, perhaps worse, no real accountability for allowing these programs to grow far beyond our means to sustain them.

Already we are in a situation where mandatory autopilot spending constitutes over half of the federal budget and it will grow to consume over two-thirds in just the next ten years. This will condemn future generations to a crushing burden of debt and taxes.

Unless we change this course starting immediately, not only will our nation's entitlements grow themselves right into extinction, they will also devastate our entire budget and our economy in the process. We simply cannot allow this to happen.

On that point, I believe CBO Director Orszag said it well at yesterday's Budget Committee hearing when he said given the path we are on, we will ultimately wind up with a financial crisis that is substantially more severe than even what we are facing today.

This is serious stuff and it is a problem that gets exponentially worse with every year we fail to address it. The time to act is now and getting moving on common-sense budget reforms is a good place to start.

We have certainly got the right group of witnesses here today to further this discussion. And I very much look forward to their testimony. I hope members on both sides of the aisle, at least right now on the Democrat side of the aisle, take those suggestions to heart.

I thank the Chairman.

Chairman SPRATT. Thank you, Mr. Jordan.

And now a few housekeeping details. I want to ask to unanimous consent that the written statement of Representative Heath Shuler of North Carolina, sponsor of H.R. 484, be included in the record at this point.

[The prepared statement of Heath Shuler follows:]

PREPARED STATEMENT OF HON. HEATH SHULER, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF NORTH CAROLINA

CHAIRMAN SPRATT, MEMBERS OF THE COMMITTEE: My budget reform resolution is aimed at strengthening and increasing the transparency of the budget process.

All too often, Members of Congress are forced to vote on legislation without knowing its true cost implications.

This measure will ensure that Members have a sufficient amount of time to properly examine legislation and determine its actual cost.

My budget process reform resolution would require that a full Congressional Budget Office cost estimate accompany any bill or conference report that comes to the House floor.

It requires that all earmarks and the name of the requesting Member are publicly available online at least 48 hours before a vote.

It requires a written justification for each earmark and committee reports to the Speaker and Minority Leader every six months to ensure compliance with program oversight plans.

My resolution would ensure that lawmakers have at least three days to review the final text of any bill before casting their votes.

It also requires that a roll call vote take place on any legislation authorizing or providing new budget authority of at least \$50 million.

This will provide an unprecedented level of clarity and honesty in the legislative process.

Mr. Chairman, I was honored to support many of the ethics reforms passed in the 110th Congress.

However, I am disappointed that regardless of which party is in control of Congress, Members are still expected to vote on important and costly legislation with little to no time to review it.

We owe it to our colleagues in this institution and to the American people to open up the budget process.

I urge the Members of this committee to support this resolution and I want to thank the Chairman again for today's hearing.

Chairman SPRATT. In addition, I ask unanimous consent that all members be allowed to submit an opening statement for the record at this point. Without objection, so ordered.

We were going to Mr. Conaway and we will simply make provisions for him when he arrives.

Let us proceed now with our witnesses. We welcome you today. Appreciate the time you are taking to prepare and to come. And we will make your statements part of the record so that you can summarize them as you see fit.

Let us begin with Ms. MacGuineas.

STATEMENTS OF MAYA MACGUINEAS, PRESIDENT, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET; RICHARD KOGAN, SENIOR FELLOW ON FEDERAL BUDGETING, THE CENTER ON BUDGET AND POLICY PRIORITIES; C. EUGENE STEUERLE, VICE PRESIDENT, PETER G. PETERSON FOUNDATION

STATEMENT OF MAYA MACGUINEAS

Ms. MACGUINEAS. Thank you. Good afternoon. Thank you for the opportunity to testify before my favorite Committee on one of my favorite topics, budget process.

As recent events have made clear, the budget is under tremendous strain and one of the most important rules of the federal budget, of course, is to be flexible enough to respond to the kind of crises that come along, whether it is war or natural disaster or a Wall Street meltdown.

When you run large budget deficits year after year, your hands are tied. And whether the package that is currently being considered ultimately costs 100 billion or 500 billion or a trillion, it will greatly affect the flexibility of the budget in coming years, a budget that is already overstrained.

And because we are already living beyond our means, the components of this package that are meant to stabilize the economy could well do the opposite if the macro-economic effects of excessive borrowing negatively impact the wider economy.

In thinking about budget process in particular, there are a number of items. I think you should start with thinking about where the problems are and there are a number of ideas that I would just throw out for consideration.

The first one is accounting and transparency. Many ways in which we do federal budget accounting are confusing, misleading, and nontransparent. The decision of when to use cash or accrual accounting is not always clear. Costs that appear to be beyond the budget window are not displayed in basic budget documents. A variety of items from tax expenditures to offsetting receipts to the government's purchase of assets are accounted for in ways that are confusing rather than illuminating.

Second, the most basic process of crafting the budget. There are so many problems in this basic process starting with the fact that when the President submits his budget, it can be ignored by Congress. The budget that Congress ultimately adopts can be toothless, can be ignored, and often is. There are deadlines that we miss too regularly and probably most important oversight is not built into the entire process nearly as much as we would want it to be so that learning from the past can help inform our decisions going forward.

Another issue is baselines. We are now in a confusing situation where the two major Presidential campaigns are working off of baselines that are different than those that the Budget Committees or the Congressional Budget Office uses. Having numerous baselines is the result of a number of factors including that some policies are slated to expire while others are not based on how they were passed, that revenues and spending are oftentimes treated differently in the baselines, and, of course, there is the desire of campaigns to use a baseline that makes their policies appear less expensive, a desire that I am worried will spread to Congress in the coming years.

Another topic is oversight. Our current budget process over-emphasizes deciding how to spend money at the expense of oversight. All programs in the federal budget should be analyzed in detail on a regular basis and this includes discretionary spending, mandatory programs, and also tax expenditures.

Compartmentalization. Many policy issues need to be viewed in a comprehensive manner. For instance, questions about what investments best fuel economic growth or how to reform entitlements should not be examined in a piecemeal fashion. However, the compartmentalization of policy experts, the political process, and Congressional Committees makes thinking about these policies through an integrated approach more challenging.

Then there is the long term. The budget process emphasizes short-term over long-term interests and a more balanced approach would require that we more thoroughly evaluate the short- and long-term effects of the policies we put in place today.

It is not meant to be an exhaustive list, but instead to add to the discussion about what is broken in the budget process today.

We commend Congressman Shuler and other members of Congress who have focused on this area of the budget and developed recommendations for reform.

I want to also touch on a couple specific areas that I think would help improve the process going forward.

The first is budget concepts. Federal budget concepts dictate how government accounts for its spending and revenues. And this whole process has not been reevaluated since 1967. Obviously the budget has changed dramatically since then in terms of how we account for things like tax expenditures, the purchase of assets, government insurance, GSEs, other public pensions, promises, and revisiting concepts would be a useful exercise.

In terms of development of the budget, it is important that we have a more realistic time line that allows for all aspects of responsible budgeting. Built-in evaluation measures should be part of the budget and other changes would reconsider the baseline to end some of the automatic growth in certain programs that drives up

baseline spending and to remove some of the existing biases. Finally, mandatory spending must be brought back into the budgeting process.

Enforcement. We continue to support tried and true measures of discretionary spending, caps, and pay as you go rules. We also think that it may be time to explore other methods such as triggers and strengthening PAYGO and also adding a form of long-term PAYGO.

Certainly no budget improvements will replace the need to focus on policy. And on that front, we would like to commend Congressman Ryan for his impressive work that he has done in developing a roadmap for America's future where we do not necessarily support all of the ideas in the plan and we do not think real progress can be made until we start with the premise that everything must be on the table. Moving towards specifics is a useful step.

I want to toss out one idea that just came in discussions I have been having today about the topic at hand, what to do about the economy and the bailout.

It does dawn on me that if we end up having a package where the government puts assets to stabilize, to increase liquidity, and as a capital infusion and at the same time purchases or ends up having some ownership of these companies, whether it is through options or stock, we could face a situation where a few years from now we suddenly have an influx of revenues that we did not anticipate coming into the budget after borrowing \$700 billion or some such amount to help with the current situation.

I would recommend that this Committee start thinking about how to ensure that that money when it comes back to the budget is directed directly towards paying down the debt. There is a very real risk that that money comes in, we suddenly feel that we are richer than we are, and that money gets spent on other priorities. So some kind of mechanism to make sure that that money contributes to debt repayments would be useful.

I want to end by saying that process improvements can greatly help the budget or they can be a political punt. I think that no matter what, process will have to be part of the solution, but you do not want it to replace policy choices.

However, it may well be that starting with process is the best way to begin this discussion because it is less polarized, less political than the real policy choices, raising taxes and cutting spending that need to be on the table ultimately.

So it may prove most useful for Congress to start with something like budget concepts or other areas of the budget where bipartisanship can help build a foundation for moving into the more challenging pieces.

The Committee for a Responsible Federal Budget eagerly awaits the opportunity to help you in any way that would be useful. And thank you.

[The prepared statement of Maya MacGuineas follows:]

PREPARED STATEMENT OF MAYA C. MACGUINEAS, PRESIDENT, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET AND DIRECTOR, FISCAL POLICY PROGRAM, NEW AMERICA FOUNDATION

Good morning, Chairman Spratt, Congressman Ryan, and Members of the Committee. Thank you for the opportunity to testify—it is a privilege to appear before this Committee on this important topic of budget process reform.

I am the President of the Committee for a Responsible Federal Budget. Our Co-Chairmen are Bill Frenzel and Leon Panetta and the Board consists of many past Directors of the Office of Management and Budget, the Congressional Budget Office, and past Chairs of the Federal Reserve Board and the Budget Committees. Our focus is the federal budget and related process issues. I am also the Program Director for the Fiscal Policy Program at the New America Foundation, a non-partisan think tank here in DC.

As recent events have made clear, the budget is under tremendous strain. One of the most important roles of the federal budget is to be able to meet the needs of the country whenever they might emerge. One cannot always anticipate when these events will take place—but whether it is a terrorist attack, a natural disaster, or a Wall Street meltdown, you want the budget to be flexible enough to respond as policy makers determine it should. When we run large budget deficits year after year, your hands are tied. Whether the package that is currently being considered ultimately costs \$100 billion, \$500 billion, or a trillion, it will greatly effect the flexibility of the budget in coming years—a budget that is already overly strained. And because we have been living beyond our means in the past, the components of this package that are meant to help stabilize the economy, could well do the opposite if the macroeconomic effects of excessive borrowing negatively impact the wider economy.

I have many further thoughts on the package to deal with the economic crisis we currently face, but I will focus my thoughts here on the important issue at hand—budget process reform.

In thinking about the types of changes that are needed to improve the budget process, best to start with the question of where the budget process is failing. Unfortunately, the answer is a lengthy one. We are working with rules that are decades old and were created when the budget, economy, and policy challenges were dramatically quite different than they are today. The rules and concepts have been amended in an ad-hoc manner resulting in a highly complex process. There are a number of issues that hinder the budgeting process, including:

Accounting/transparency—Many ways in which we do federal budget accounting are confusing, misleading, and nontransparent. The decision when to use cash or accrual accounting is not always clear; costs that appear beyond budget windows are not displayed in basic budget documents; and a variety of items from tax expenditures, to offsetting receipts, to the government's purchase of assets, are accounted for in ways that often confuse rather than illuminate the government's financial position.

Process—The most basic process of crafting the budget is no longer functioning. The budget that the President submits to Congress is completely divorced from the rest of the process. The budget that is ultimately adopted by Congress is toothless and can easily be overridden and regularly is. A central piece of the annual budget process—the passing of appropriations bills—focuses on the smallest part of the budget and leaves mandatory spending on auto-pilot. Deadlines are missed with distressing regularity. And the entire process is time consuming and contentious, yet fails on some of the most critical aspects of budgeting—thoughtfully contemplating the optimal allocation of government resources, and employing sufficient oversight and evaluation of all the programs in the budget.

Baselines—We now are in the confusing situation where the two major presidential campaigns are working off of baselines that are different than those the Budget Committees or the Congressional Budget Office use. Having numerous baselines—including “current law”, “current policy”, “realistic”, and others—floating around reflects a number of factors. Some policies are slated to expire while others are not, based on the method that was used to pass them. Revenues and spending are oftentimes treated differently in the baseline. And of course, there is the campaigns' desire to make the task of trying to pay for their policies easier by using a favorable baseline—a desire I worry Congress may succumb to as well.

Oversight—The process of budgeting is not merely determining how to raise and spend money but also evaluating the effectiveness of how money has been spent in the past in order to inform future decisions. Our current budget process over-emphasizes deciding how to spend money at the expense of oversight. All programs in the federal budget should be analyzed in detail on a regular basis. This includes dis-

cretionary spending programs, mandatory spending programs, and it also includes tax expenditures—the hundreds of billions of dollars that are run through the tax code but bear a greater resemblance to spending policy than tax policy. Currently, this area of the budget receives the least oversight of all. If we don't take the time to evaluate the purpose of government programs, determine whether the purpose is the best use of limited federal dollars, evaluate the effectiveness of the program, and apply tools such as cost-benefit analysis, we will surely misdirect resources.

Compartmentalization—Many policy issues need to be viewed in a comprehensive manner. For instance, questions about what investments best fuel economic growth or how to reform entitlements, should not be examined piecemeal. However the compartmentalization of policy expertise, the political process, and the congressional committee structure makes thinking about these policies through an integrated approach extremely challenging. Worrying about congressional jurisdiction and looking at policies with a narrow lens makes thoughtfully updating our retirement, health, investment, and tax policies nearly impossible.

Long-term—The budget process emphasizes short-term over long-term interests. First, there is the basic political environment where politicians are unavoidably affected by the short-term election cycle. On top of that, the entire budgeting process emphasizes what will occur in the next fiscal year and to a lesser extent policy effects throughout the truncated budget window, while very little emphasis is given to the long-term effects of the budget policies we put into place today. It is true that policies can always be changed in the future, but realistically once a policy is in place, it becomes entrenched with its own constituencies and can be quite difficult to change. A more balanced approach would require that we more thoroughly evaluate the short and long term effects of the policies we put in place today.

This list is not meant to be exhaustive but instead, to add to the discussion about what is broken in the budget process and what needs to be fixed.

In the past, the Committee for a Responsible Federal Budget has supported a number of budget reform ideas such as expenditure limits, joint budget resolutions, dual sided pay-as-you-go rules, automatic continuing resolutions, strict definitions for emergencies, rainy day funds, proper distinguishing between spending and revenues, and enhanced rescission. A detailed summary of these ideas is attached and the full report, *Federal Budget Process: Recommendations for Reform*, can be found at: <http://www.crfb.org/pdf/2000/RecommendationforReform.pdf>. We continue to support these ideas, but as we look forward to the problems that most plague the budget process, I think the list will have to be expanded significantly.

We commend Congressman Schuler and the other Members of Congress who have focused on this area of the budget and developed recommendations for reform. There are a number of practical ideas in Congressman Schuler's proposal that we think would improve the process including efforts to increase the transparency of and the consideration that goes into conference reports, increasing transparency of earmarks, and strengthening oversight. Ideas such as these emphasize the need to make the information readily available to lawmakers about the policies and costs of the very dense bills they need to evaluate.

I will touch on a number of other areas for your consideration.

Budget concepts—Federal budget concepts dictate how the government accounts for its spending and revenues within a complex budgeting system. There has not been a full-fledged reevaluation of budget concepts since 1967, when the government adopted most of the recommendations of the President's Commission on Budget Concepts. Many of these concepts need to be reevaluated in light of the fact that the budget has changed drastically over the past 40 years. How we treat tax expenditures, the purchase of assets, government insurance, GSEs, and public pension promises are all examples of issues that could be considered. It is time to once again convene a Budget Concept's Commission to update our accounting practices and to help improve the transparency of the budget.

Development of the budget—The process of developing the annual budget must incorporate the most important aspects of responsible budgeting. The timeline may need to be altered. Built-in evaluation measures should be part of the budget. Though perhaps not on an annual basis, this should take place for all aspects of the budget at regular intervals. Congress should be forced to evaluate the trade-offs of different policy choices. One way to force this evaluation is to require that all new spending be paid for. The exercise of determining how to fully fund the budget makes the costs of the policies more transparent. Ending the blank check mentality forces Congress to deal with tradeoffs between lower taxes and higher spending and to better prioritize between competing spending proposals.

Other changes would include reconsidering the baseline to end some of the automatic growth in certain programs that drives up baseline assumptions, and to remove some of the existing biases. Finally mandatory spending must be brought back

into the budgeting process so that there are checks on cost growth and more oversight of the nation's largest programs.

Enforcement—We continue to support tried-and-true measures of discretionary spending caps and pay-as-you-go rules. We think stringent but realistic discretionary spending caps should be put in place and that pay-go should apply to changes in taxes as well as mandatory spending. We need to end the types of abuses that have plagued PAYGO in recent years such as timing gimmicks, as well as strengthening Congresses' resolve not to waive the rule whenever the going gets tough.

We also need to go further. Though we do not have an institutional position on when they should be used, many members of the Committee for a Responsible Federal Budget believe that we should increase the use of "triggers" in the budget. This technique puts a backstop into the budget so that when parts of the budget are breached and Congress fails to act, automatic changes are made to put the budget make on course.

We are in a worse fiscal position than we were in when PAYGO was first enacted. An important question is whether PAYGO could be strengthened so that it does not just keep things from getting worse, but rather is designed to encourage, and when necessary, force action to improve the fiscal situation. This could take many forms, but one I will propose is that when the deficit and/or unfunded liability numbers reach a certain point as a share of GDP, perhaps a "Super PAYGO" that would require new costs to both be offset and paired with some level of deficit or unfunded liability reduction, would kick in. I also support a long-term PAYGO that restricts the level of future promises we make so that it is somehow connected to what we pay in taxes today. So for instance, one might put in place a requirement that future projected spending as a share of GDP can not exceed more than three percentage points of what taxpayers pay in GDP today. There are many varieties of such a mechanism, but the point is to restrict how much Congress today directs future generations to fund.

Certainly no improvements to the budget process will be sufficient to fix the budget mess we are in. Ultimately this is a policy problem more than a process problem and we will have to fix our taxing and spending policies in order to deal with the tremendous imbalance as we face. For all the clever ideas we discuss today and others in the process arena, if you and your colleagues agree to a plan that raises revenues and/or cuts spending by enough to significantly close the fiscal gap—that would be a far more important accomplishment.

On this issue we would like to commend Congressman Paul Ryan for the impressive work he has done in developing his "Roadmap for America's Future" which lays out how he would reform the budget to conform with his principles. We do not necessarily endorse the particulars of the plan, nor do we believe that real progress can be made until all sides agree that everything has to be on the table (meaning that no particular policies can be marked "off limits", not the people have to be willing to embrace particular policies they oppose), but we do think the exercise of getting specific is a huge step forward and we are grateful for Congressman Ryan's efforts in this area.

However, it may turn out that the best way to ease Members of Congress who are resistant to participating in meaningful budget reform into the necessary exercise is to start with process first. Certain areas such as budget concepts, have not become overly politicized and lend themselves to bipartisan efforts which will help lay solid foundation for future larger efforts. My belief is that we should work on developing ideas that would improve all aspects of the budget from concepts to enforcement to policy and see when there is a political opening to move on any of these crucial ideas.

The bottom line is that if politicians choose to spend more than they are willing to pay for, if we spend more time creating next year's budget than analyzing the effectiveness of last year's, and if we continue to kick the can down the road on entitlement reform, no amount of process improvements will fix the budget. Ultimately, the most important components of responsible budgeting are the people involved in the process and the decisions they make. No matter what rules we create, what hurdles we develop, or what restrictions we build-in, Congress can always bypass them if they are not consistent with the policy goals to which Congress is committed.

I would like to close by saying we at the Committee for Responsible Federal Budget deeply appreciate the work of the House Budget Committee. We are strong admirers of the work of Chairman Spratt, Congressman Ryan and this Committee as a whole. Much like running a group called the Committee for Responsible Federal Budget, where I regularly have to turn to my colleagues at my think tank and say, yes, but how are you going to pay for it? being the Committee that pushes for thoughtful budgeting is not always appreciated as it should be. So thank you for

the work you do, thank you for having me here today, and I look forward to your questions.

APPENDIX 1

Committee for a Responsible Federal Budget Reform Proposals

The Committee for a Responsible Federal Budget, in collaboration with experts inside and outside of government, developed a list of budget process reform recommendations that we believe will be useful in improving the efficiency, transparency, accountability, and outcomes of the budgeting process. These recommendations include:

Joint Budget Resolution—Currently, legislators labor under multiple budgets and multiple baselines. This greatly confuses the budget process and makes competing choices and their related trade-offs more difficult to evaluate. Under a Joint Budget Resolution, Congress and the President would agree on the broad fiscal goals that would guide budget decisions in a given year. Bringing the President into budgetary negotiations earlier in the process would help avoid the showdowns that can occur at the end of the process if Congress and the President are working on different tracks with different priorities. Additionally, the switch to a Joint Budget Resolution would create a higher level of accountability and better define when limits have been breached; thereby making it more difficult to “bust the budget.”

Expenditure Limits—The budget resolution should include enforceable nominal dollar limits for both discretionary and direct spending. In the past, statutory limits have proven to be one of the most effective approaches to instilling discipline into the budget process. However, limits must be set at a reasonable level. As we saw in the 1990s, reasonable caps can be extremely effective; unreasonable ones are routinely ignored, contributing to the breakdown of the process. As direct spending continues to grow as a share of the budget, it is important to consider different ways to control this area of the budget.

Pay-As-You-Go—The PAYGO principle, which requires that revenue reductions and direct spending increases be offset so as not to increase the deficit, remains a crucial budgeting principle that should be reinstated in full force. PAYGO will not improve the fiscal imbalances we currently face, but it will prevent them from getting worse. The Committee believes that it is necessary to apply PAYGO to both sides of the budget—spending and taxes. Otherwise, there will always be strong incentives to run spending programs through the tax code in order to avoid the requirement of offsetting the costs. The prescription drug program would have had to have been paid for rather than debt financed and revenues lost from the tax cuts would have been offset, had real PAYGO been in place over the past few years. It is worth pointing out that for those who would like to control the growth of government spending, offsetting tax cuts with spending reductions should be seen as a desirable policy, not a problematic one.

Biennial Budgeting—The budget process does not leave nearly enough time for oversight. Congress spends a significant amount of energy trying to meet specific deadlines—which are often missed—and spends too much time during the annual appropriations process repeating work it did the previous year. One potential improvement would be to move budgets, appropriations, and tax cycles to a two-year budget cycle. This would free up more time for program review, strategic planning, oversight, evaluation, and reform. That said, there are legitimate concerns about two year budgeting regimes. It is quite likely that we would see a dramatic increase in the number of supplemental appropriations bills—something that is already problematic. We believe that strict restrictions should be developed to control supplemental spending. As is the case today, supplementals should only be used in the case of emergencies, not as a means to increase spending in general budget areas—the incentives for mischief could be larger with two-year cycles.

Automatic Continuing Resolution—All too often Congress fails to reach agreement on its regular appropriations bills. We recommend an automatic continuing resolution at or below the level of spending caps contained in Budget Resolution to be used as a stopgap funding measure. Automatic continuing resolutions should be restrictive to create an incentive for Congress and the President to agree on regular appropriations bills rather than falling back on the continuing resolution.

Strict Definitions for Emergencies—The need for changes to our use of supplementals is illustrated by the emergency supplemental that was just passed in the Senate. Emergency supplementals should not be used to pay for normal government operations. In the past few years, many defense-related activities that should have been financed through the normal appropriations process have been funded through emergency supplementals. More and more, non-defense related spending has also been creeping into these bills. As the Chairman of this Sub-

committee has highlighted, one merely has to look through the recent supplemental for many egregious examples. "Emergencies" should be carefully and narrowly defined, and there must be strong rules governing related expenditures. Otherwise emergency funds will continue to be employed as a way to add additional spending not contained in the budget. As my Co-Chairman Bill Frenzel has pointed out, supplementals have becoming a money machine. Once it became accepted practice to use supplementals as a money machine for regular defense spending it was only a matter of time before advocates of domestic spending started to look to the money machine for their programs as well.

Rainy Day Funds—The impact that a disaster such as Katrina can have on the federal budget is a reminder that the government should be planning and budgeting for such emergencies. While we never know when and in what form the next natural disaster will occur, we know that they do occur with unfortunate regularity. The Committee strongly supports the use of "Rainy Day Funds." Such funds would require that Congress set aside reserve funds reflecting average costs of past years' disasters to prepare for unforeseen, disaster-related costs. As noted above, what constitutes an emergency would have to be carefully and narrowly defined. While in all likelihood the costs of Katrina would have exceeded the amount in a Rainy Day Fund, the presence of the fund would have left the federal government in a better starting fiscal position to cover these costs. Also, when emergency costs exceed the level in emergency funds, Congress should exercise greater restraint in the rest of the budget to help offset unanticipated costs.

Proper Distinguishing Between Spending and Revenues—We are currently unable to accurately measure the true size of government. We label spending programs as "tax cuts," tax receipts as "fees," and revenues as "negative outlays." This level of complexity greatly decreases the transparency of the budget and the slippery definitions make it virtually impossible to accurately describe the size of government relative to the economy. The true size of government is probably greatly understated. This would never be tolerated for a private company, nor should it be for the federal government. To improve this misleading approach to accounting, there should be strict limits on any receipts scored as negative outlays. Activities that have all the characteristics of spending programs should not be scored as tax expenditures.

Enhanced Rescission—The Committee supports enhanced rescission. The President should be able to identify and suggest the elimination of wasteful or low-priority spending programs while Congress should be given the chance to weigh in before funds are withheld or canceled.

Chairman SPRATT. We thank you. We will come back to you on questions. But let us turn next to Richard Kogan.

STATEMENT OF RICHARD KOGAN

Mr. KOGAN. Thank you, Mr. Chairman. It is a pleasure to be back here.

Those of you who do not know, I spent much of my formative years on the staff of this Committee, 21 years on the staff of this Committee. And so I have seen more of the ins and outs of budgeting than any sane person would ever want to.

I am here today—

Chairman SPRATT. Let me say that I think you formed us more than we formed you.

Mr. KOGAN. Thank you.

I am here today pretty much in the position of a naysayer. That is to say I do not think that there is anything inherently wrong with the Congressional budget process the way it is now designed. It is now designed to allow Congress to make budget targets if it wishes to and adhere to those budget targets if it wishes to so that it has a budget of its own that it can put up contrary to or complementary to the President's budget.

All of that has worked many times in the past and can work to the extent that the leadership and the majority in both the House and the Senate are committed to whatever it is they initially agreed to.

The problem is forming majorities other than transient majorities. And here I say that the problem is serious because the majorities that do not exist now are the majorities of people who would say, ah, these are the twelve taxes I would like to increase and here are the eight spending programs that I would like to reduce and how I would like to reduce them and here is who would lose benefits under those.

These sorts of people tend not to be elected to Congress to begin with. I blame the voters for that, not the members.

Why is it so difficult to enact difficult legislation? Well, of course, this is in some sense a repetitive question. The question answers itself.

But beyond that, I think that the reason that the budget process does not produce more fiscally responsible outcomes is that it is embedded in a legislative process which is inherently inefficient. It was created by the founders to be inherently inefficient.

The founders were more concerned about strong government taking away individual liberties than they were about government being not able to operate very efficiently and quickly to address problems. And so they created both a House and a Senate. And the Senate created a filibuster rule. And they created a President who had a veto power over what the House and the Senate might do if the House and the Senate were even able to get together.

They created a system in which passing legislation is hard. And they did this with conscious aforethought. We are embedded in that system. We, the budget process, are embedded in that system. And so, therefore, I think that the difficulty you have in creating budgets and getting the House and the Senate to agree on a same budget, even when the House and the Senate are of the same party, of actually implementing the budget if it calls for any sorts of hard choices at all, are simply endemic to the normal structure of American politics under the Constitution.

There is ample historical precedent for my view. Between the founding of the Republic and the 1860's the preeminent public policy question was the question of slavery and Congress could not successfully address it. It was stuck in gridlock. It was stuck in gridlock for 70 years. It could not address it.

After the Civil War, it took 100 years before a "Civil Rights Act" and a "Voting Rights Act" were enacted.

Since the founding of the Republic, it took until the new deal until unions were recognized or Social Security was created or unemployment compensation was created even though those ideas had been around for, oh, easily one of those centuries.

And that was an exceptional circumstance. That was a circumstance in which all the levers of government were held by overwhelming majorities of one party, something which does not happen during normal times and is not necessarily good for the country during normal times.

So I think that we are back in the normal situation in which difficult problems cannot be resolved under the Constitution. Therefore, my idea of what budget process reforms would be would be Constitutional changes that would make the legislative process more efficient.

I am not advocating these because I think the balance between efficiency and liberty which the framers consciously thought about may not be the wrong balance. It may not be a bad thing that it is so hard to do the right thing through legislation. I do not know the answer to this.

I do know, however, that if you want the budget process to be more efficient, then the things you need to think about are not the, in essence, small bore items that various members and other experts can and have proposed and that I have proposed in the past, but rather big bore items. We could have a unicameral legislature, for example, or we could have a parliamentary democracy in which the unicameral legislature selected the President. Then there would be a majority to pass a budget.

Short of these drastic steps, we could amend the Constitution to provide for public financing of all primaries and elections and the prohibition of independent political expenditures. This would take a Constitutional amendment. I am not sure that this is a good idea, but it would possibly insulate Congress from the pressures that make it difficult to legislate.

Another possibility is to amend the Constitution to eliminate the Senate's filibuster rule, strengthening majorities, weakening minorities. Again, where you stand on that depends on whether you happen to think you are in the majority or the minority at any particular time.

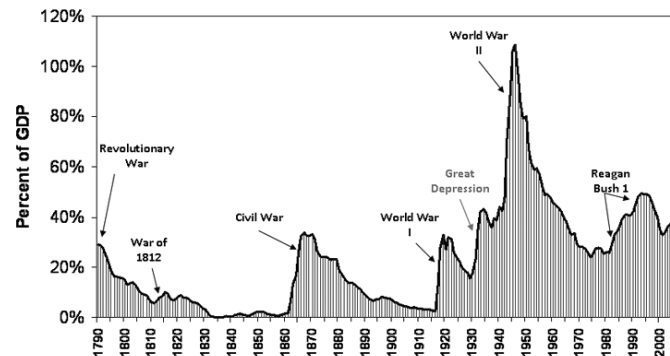
A smaller bore Constitutional amendment might be to establish a national nonpartisan redistricting commission with the sole authority to draw Congressional districts, to balance the competing goals of compactness and competitiveness. If there were 400 competitive districts rather than 70 competitive districts, perhaps there would be more members who would be drawn towards the center or pulled screaming towards the center more willing to compromise.

And then again, maybe not. I am not sure that any of these is a good idea, but I do believe that these are the sorts of things you need to think about if you want to make the legislative process more efficient.

Okay. I have asserted that there is nothing fundamentally wrong with the Congressional budget process per se other than its being embedded in the Constitution and being part of the normal legislative process.

Let me make this point in an entirely different way. I have a graph. No graph appears? Okay. I guess I do not. I have a graph. Okay.

Federal Debt



Mr. KOGAN. This is a graph of debt as a share of GDP since 1790. As you can see, during large parts of the nation's history, it was customary for the debt GDP ratio to fall. You do not need to balance the budget to do that, but you do need to run small deficits. You need to run a debt that grows more slowly than the economy grows so that the debt burden shrinks in relative terms from year to year.

You also see that there were sudden large upsurges of debt on rare occasions, Revolutionary War, the Civil War, World War I, World War II, the Great Depression, and I might add the Reagan budgetary experiment which in a budgetary sense at least was not a success.

Okay. That is it for the entire history of the United States. To my mind, this does not indicate a budget process failure under any of these budget processes that existed during that period. It was not the budget process that was responsible for World War II or World War I or the Revolutionary War or the Civil War, nor the Great Depression for that matter.

If you go to the next version of this graph, however, you will see that Congress had a habit of responding to large run-ups of debt by changing the budget process. This to me indicates non sequitur. Congress sees that the debt has increased dramatically and says to itself, oh, my God, we better change the budget process.

That is wrong. If it was major wars that are the sole major cause of large debt, then instead of changing the budget process, perhaps you need a stronger "War Powers Act." I say this not at all facetiously.

But the history of this in which we wrote the Constitution after the Revolutionary War, we split the appropriations from the Ways and Means Committee after the Civil War, we wrote "The Budget Accounting Act" right after World War I, we wrote "The Legislative Reorganization Act," which told Appropriations to do omnibus appropriations bills rather than 13 separate appropriations bills right after World War II, you know, all of that indicates that we are missing the point.

It is not the budget process that causes debt. In general, it is external forces. To the extent it is bad decisions made internally, those decisions can be made, the biggest one of those decisions, the decision in the beginning of the Reagan Administration to hope that large supply side tax cuts would produce so much economic growth that they would largely pay for themselves was a process that took place under the existing budget process and took advantage of the reconciliation process to facilitate the enactment of that decision.

So I cannot conclude from looking at the historical evidence or looking at 200 years of history of legislation that there is anything fundamentally wrong with the budget process other than that the public situation makes it hard for members of Congress to do the right thing as there is always a different body and there is always a different President who can chop you off at the knees.

There is one final point I want to make which is contrary to some extent to one of the points that Maya made. She talked very correctly about the long-term budget difficulties that we face. I think that all of us on this panel and all of you from the Committee see the same pictures that CBO and GAO commonly put out in which a debt explosion basically unlike anything we have seen before, even unlike World War II, threatens us 30, 40, 50 years out if we stayed on the current path and did nothing about it.

Obviously that cannot happen. The question is, how do you change it? Since it takes changes in legislation and since I have just in a very sort of pessimistic way pointed out how hard it is to make legislative changes, what do you do?

Well, one of my Maya's answers is perhaps that we should take an even greater focus on the long term. And that is the sort of logical answer that someone who has been trained as I am, I was trained as a political scientist, would give. But because academics really believe that if you present the facts to people and look at them logically, they will make logical decisions. Okay?

I grew up in academia. I worked here. The academics are wrong. And so the solution, to my mind, the solution, this solution of taking a longer scale look has already been tried and to some extent has been a failure. Specifically when "The Budget Act" was first created, budget resolutions were one-year documents. They focused on the appropriations numbers, the tax numbers, the entitlement numbers for the budget year only.

It became clear that there are ways to gimmick the system. You would start tax cuts or entitlement increases that began on the last day of the fiscal year and had no cost and then grew later and that were outside, therefore, the purview of "Budget Act" controls.

And for that reason and because also even back in the 1970s and 1980s people were beginning to worry somewhat about the long-term picture, it was decided to make the purview of the "Budget Act" somewhat greater. So we informally and then formally made it a minimum of five years rather than one year.

My sense of it is that that experiment has been at best a wash and at worst a failure. By doing five-year budgets rather than one-year budgets, by doing ten-year budgets when we chose to and we could choose to, we allowed members of Congress, we allowed the President to say, ah, look at my trajectory. Yeah, it looks really

horrible this year, but, look, the deficit is going down. It will be cut in half in five years. It will disappear in three years. We will have surpluses in eight years, whatever.

And they, therefore, avoided having their attention focused on what we were doing this year. They even allowed themselves to enact budgets one after another in which we made the first year's deficit worse. We increased spending programs, cut taxes in the first year under budget projections that would show increasingly tight spending controls that we were not willing to impose in the first year, but leading to much better outcomes.

It almost allowed us to sabotage our best instincts. It gave us a talking point about why the budget was responsible when, in fact, budgets did little or nothing to improve the situation in the first year, sometimes made it worse.

And so my conclusion is that if we expanded this to take a 30- or 50-year view of it in the formal budget process, then we would get proposals which would solve problems with legislation that would take effect first 30 years out. It would not affect any of us and any of our constituents, any of our voters. And so we could promise tax increases first effective 30 years from now or benefit cuts in Social Security first effective 40 years from now or squeezes in Medicare reimbursement rates that do not squeeze anything in the first, second, or third year, but eventually get so tight that they are unsustainable, sort of a maxi view of the sustainable growth rate, the physician reimbursement problem that we now have where we in 1997 had a path that would squeeze down Medicare by squeezing doctor reimbursements and then every single year starting in 1999 since then, we undid the squeezes.

If we have a long-term budget whereby we can even enact into legislation provisions that cannot survive politically, that it will be first effective 30 years out, then the pressure to do something real now is even smaller than it already is.

So my recommendation to you, even though we all know we have a very serious long-term problem, is to focus more on what you are doing this year. If you really mean to cut appropriations, do not put in a cap that really starts to bite three years from now or five years from now. Cut this year's appropriations bills. Stand up and vote no. Vote for an amendment that cuts money out of appropriations bills.

My organization would probably oppose many of those cuts, but at least it is something real you can do. If you think revenues are inadequate, vote for a tax increase that takes effect now, not scheduled ten years from now or something of the sort. If you cannot do that, stop bemoaning the budget process, change the Constitution.

Thank you very much for your time.

[The prepared statement of Richard Kogan follows:]

PREPARED STATEMENT OF RICHARD KOGAN, SENIOR FELLOW, CENTER ON BUDGET
AND POLICY PRIORITIES

ARE FUNDAMENTAL CHANGES NEEDED TO THE CONGRESSIONAL BUDGET PROCESS?

Chairman Spratt, Mr. Ryan, thank you for inviting me to testify on the Congressional budget process. While I am currently employed by the Center on Budget and Policy Priorities, this testimony represents my own views. Those views have been shaped by my 35 years in this field, including 21 years staffing this Committee.

Today I would like to make two points. First, I see no fundamental problems with the congressional budget process, but I do see fundamental problems with the legislative process as a whole—and short of amending the Constitution, I don't know how to correct them.

Second, I think that in most cases, focusing on the long-term effects of budgetary decisions may be doing as much harm as good.

Let me elaborate.

IT'S THE LEGISLATIVE PROCESS, NOT THE BUDGET PROCESS

It is becoming harder to pass congressional budget plans in the House or Senate than it used to be, and it is becoming harder for the House and Senate to compromise on a budget plan—even when both chambers are nominally controlled by the same party. By the same token, it is becoming harder to pass appropriations bills on time (or at all), even when those bills are consistent with the congressional budget plan.

Yet these difficulties are not confined to the congressional budget process. Here are two other examples. Climate change, fueled by the increase in greenhouse gas emissions, seems to pose a very serious risk to our future well-being. And there is even wider public agreement that the existence of 11 million illegal immigrants in the United States can't possibly be optimal, either for them or for the many who are fortunate enough to be here legally. Yet despite widespread agreement that something should be done, comprehensive legislation dealing with immigration or with climate changes seems out of reach.

Why is this? Why does legislative gridlock seem to be getting worse? And what can be done about it?

My answers are not encouraging. I think it is difficult to enact legislation addressing major issues such as climate change or immigration reform—or the long-run debt problem, for that matter—for two reasons.

- The public wants easy, costless solutions. But there are no easy and costless answers to illegal immigration, and especially not to climate change or to the long-term debt explosion. We need to elect candidates who explain which taxes they will raise and which major programs they will cut. I don't see many such voters.
- The framers of the Constitution designed a system under which major legislation requires the concurrence of a determined majority of the House, a supermajority of the Senate, and the President. They very deliberately sacrificed legislative efficiency; they made the conscious decision that life, liberty, and the pursuit of happiness by individuals was more likely to occur if the federal government was slow, inefficient, and constantly at odds with itself.

As I see it, partisan rancor and an inability to address big issues has been the norm, not the exception. The federal government miserably and catastrophically failed to find a legislative solution to the biggest single problem it ever faced—the problem of slavery. Since the whole point of politics is to resolve disputes without one side killing, torturing, or imprisoning the other, the first half of the 19th century and the resulting Civil War can surely be thought of as the biggest political failure in U.S. history. But there have been other failures of great consequence, such as the fact that it took from the founding of the republic until the 1930s to legalize the unions, and it took a century after the Civil War to pass a Civil Rights Act and a Voting Rights Act. Political failure is the norm, not the exception, and it has nothing to do with the congressional budget process.

Why do the problems of legislative gridlock and partisanship seem to be getting worse? My answer is that the Great Depression and its aftermath have finally worn off and politics in America has reverted to the bad old days. It seems to me that the Great Depression of 1929-1933, and the extremely long recovery from 1933 through 1946, was a unique time in US history, a time in which the natural inefficiency of the US legislative system was overcome by the fact the Democratic Party gained an overwhelming control over all the levels of government. This led to the enactment of much legislation that could never otherwise have been enacted (the legalization of unions and other protections for workers, a minimum wage, deposit insurance, effective bank regulation, Social Security, and so on). This overwhelming partisan control also encouraged many Republicans to become somewhat accommodative, so that they could influence the shape of legislation to a certain extent rather than being entirely ignored.

But that era has passed; the two parties now have a far more equal chance to control Congress than from 1933 through 1992. Moreover, modern polling, fundraising, and political advertising make it far less likely that one party will control more than two-thirds of the House and Senate; a party that finds itself on the losing side of some public issue is far less likely to walk itself over a cliff. So the politics

that were endemic from 1789 through 1932—partisan warfare, gridlock, and an inability to address major social or economic issues—have returned and if anything are even more strongly entrenched.

How do we change this? Most ideas would require constitutional amendments.

- We could have a unicameral legislature.
- We could even have a parliamentary democracy, in which the unicameral legislature selects the President. But legislative efficiency is provably greater under parliamentary democracies (if paired with single-member districts and therefore a two-party system), there is nothing inherent in a parliamentary democracy that instills any special wisdom in either the electorate or the Members.
- Short of this drastic step, we could amend the Constitution to provide for public financing of all primaries and elections and the prohibition of independent political expenditures. This could help at the margins by diminishing to some extent the influence of special interests. But to be frank, legislative inefficiency, partisanship, gridlock, and shortsightedness are not caused by special interests, only exacerbated by them.
- Another option is to amend the Constitution to eliminate the Senate's filibuster rule and ban supermajorities generally. Again, this is a step towards making our government a bit more like a parliamentary democracy, in which the minority party has less ability to slow down or halt legislation. This would improve legislative efficiency, but removing filibusters may not improve the quality of legislation.
- A final option is to amend the Constitution to establish a national, nonpartisan redistricting commission with the sole authority to draw congressional boundaries and the mandate to balance the competing goals of compactness and competitiveness. A reasonable case can be made that if the number of competitive districts were closer to 400 than to 70, there would be fewer diehard partisans and so a greater willingness to compromise rather than to create gridlock for partisan advantage.

I have asserted that there is nothing fundamentally wrong with the congressional budget process per se, although it is imbedded within an inefficient and often dysfunctional legislative process. Now let me make this point in an entirely different way.

The graph I am now displaying shows the level of debt—as a percentage of the economy—from 1790 through the present, using data provided by the Congressional Budget Office. As is immediately evident, throughout its history our nation has noticeably increased debt under three and only three circumstances: major wars, the Great Depression, and President Reagan's failed budgetary experiment. You will also notice that virtually every major increase in debt—that is, every period of extremely large deficits—was followed by some change to the budget process.

- After the Revolutionary War, we first tried the Articles of Confederation and then the Constitution.
- After the Civil War, the Appropriations Committee was split off from the Ways and Means Committee.
- After World War 1, the Budget and Accounting Act was created, so the Cabinet Secretaries would not unilaterally ask for their own budgets but would become part of an organized, overall budget presented by the executive branch.
- After World War 2, the Legislative Reorganization Act provided that there should be omnibus appropriations, so each appropriations subcommittee could not just head off on its own.
- And after the end of the failed Reagan experiment (it turns out that you can't balance the budget by enacting huge tax cuts and huge defense increases, even when, as Reagan did, you get 80% of the domestic cuts you request), Congress negotiated a budget summit agreement in 1990 that, among other things, created the Pay-As-You-Go rule.

As this brief history makes clear, Congress seems to be most interested in budget process reform when deficits get out of hand. I suppose this is human nature, but a look at the facts strongly suggests that far more often than not, big deficits are caused by major wars, or major economic calamities—not by any failure of the budget process. I therefore suggest, quite seriously, that a strengthened War Powers Act might be the best piece of budget process legislation you could enact. You might add a strengthened system of regulatory oversight of the financial world, so that their periodic brainstorms don't drive the real economy into the tank.

If neither of these appeals to you, I would suggest raising taxes and cutting major programs. But, as Rudy Penner famously pointed out more than a decade ago, the process is not the problem; the problem is the problem.

THE LONG-TERM VS. THE SHORT TERM

I have a second, briefer point that I'd like to make. When the Congressional Budget Act was signed in 1974, it created a system for annual, one-year budgets. Not surprisingly, Members focused on what was in front of them. If they believed the deficit for the coming year was going to be too high, they felt some duty to raise revenues in that year—or at least forgo some tax cuts—and to cut programs in that year—or at least forgo some program increases. In short, they designed budgets that made an immediate difference, and then tried to implement them. Admittedly, this was not easy.

Within a reasonably short amount of time, however, some members realized they could squeeze into a one-year budget a tax cut that started small but then grew in the outyears, or a program increase that started small but then grew in the outyears. Budget process experts, including me, concluded that we would be able to enforce budget discipline more effectively if we expanded the budget horizon to five years or even longer. Formal multiyear targeting was enacted in 1990 as part of the Bipartisan Summit Agreement.

I believe in retrospect that multiyear budgeting has probably done as much harm as good—maybe even more. The reason is twofold. First, with the focus being on a multiyear path, both the president and Congress could focus on the slope of the curve rather than on any immediate actions they might take to raise taxes and cut budgets. If the path showed a steep downward slope, they could brag about their plans to “cut the deficit,” or eliminate the deficit in three years or five years or whatever. This talking point seemed to obviate the need to do anything real about the budget during that Session of Congress; the path got them off the hook.

In fact, legislation might be enacted that would increase costs or decrease revenues in the short run while appearing to do the opposite in later years; goodies would be distributed immediately, the path of deficit reduction would appear even steeper, and a fiscally virtuous eventual result would appear even more likely, when in reality it had been made less likely.

Worse yet, it was especially easy to massage the outyear numbers so that the multi-year path always looked good. One method was to assume an improving economy. Another method was to assume that normal appropriations for the functioning of government programs could and would be squeezed in the outyears—in real terms, or in real per-person terms—in a way that Congress was evidently unwilling to do in the budget year. Assumptions that were even more egregious could be made, such as that ongoing costs—of wars, or tax cuts, or natural disaster—would simply disappear in future years.

My firm conviction is that Congress generally acted more responsibly when its budget horizon was only one year than when it was longer. I suggest that this one of many cases in which the rule of unintended consequences has trumped the predictions of budget theorists.

Chairman SPRATT. Thank you, Mr. Kogan.

Of all the connections I expected to hear today, the relationship you drew between reapportionment of the budget process was the biggest surprise.

Mr. Steuerle, Dr. Steuerle.

STATEMENT OF C. EUGENE STEUERLE

Mr. STEUERLE. Thank you, Mr. Chairman, members of the Committee. It is a privilege again to join with you this time to try to address one of the nation's most daunting challenges, restoring sensible balance to the long-run budget of the government of the United States.

I would love to engage Richard in a bit of history, but I am going to avoid that for the time being and merely indicate that I do not think anybody here on this panel is arguing the budget process creates our debt crisis. However, all the decisions that Congress and the President makes goes through processes. And including those processes are the ways that they gather information, the rules by which votes can be taken, and ways that they consider both appropriations and mandatory spending. And these processes which are

inevitable are one step that inevitably has to be decided on the way to any type of reform.

The urgency of our fiscal situation has recently been intensified by the immediate budget demands imposed by the collapse of several major financial institutions. There are disturbing parallels between the factors that contributed to this mortgage and debt related crisis and the deteriorating fiscal outlook of the United States Government.

Most importantly, there is a dangerous disconnect between the parties who benefit from various practices and those who pay the price while both public and private sectors have failed to mitigate the related risk in the face of clear and compelling warning signals.

Just think about it as you consider this agreement to deal with the financial crisis, where do you think the money is going to come from? If you do not deal with the long-term budget to be able to pay for it, at least in the long term, then are you planning on borrowing more from abroad or maybe you are planning on printing more money? Either way, the financial crisis is added to the risk from our failure to deal with the long-term budget and vice versa.

In my testimony, I suggest budget reform should focus on three areas. One, changing the budget process in a way that the long-term budget is considered first. Second, setting up various devices such as commissions that have teeth as ways of trying to address real long-term reform. And, finally, and not least important, reporting on the budget in a way that elected officials are held accountable both for changes that are newly enacted and the changes that they allow to take place that have already been built into the law.

I will touch only very briefly on several mechanisms that might be employed in these regards. The important point in restoring confidence to our financial markets is that something be done now.

Now, before getting into details, we must address briefly the nature of the problem. Put simply, never before in the nation's history has so much been promised to so many people for so many years in the future.

If you look over the vast history that Richard put up on the board, you will see that the long-term budget until only about the last couple decades was always in balance. And there is a simple reason. The budget on the expenditure side and in terms of most of the tax breaks to the extent they existed were discretionary in nature. Revenues grew with the economy. Eventually those revenues would surpass the expenditure levels that had been ordained in the past. There was no built-in growth into most programs and so the long-term budget was always in balance. And then the fiscal issue, which is important, was how to deal with the short-run budget.

Today it is just the opposite. No matter how much Congress works to get the short-run budget in balance, under today's procedures, under today's laws, I should say, the long-term budget is always imbalanced. And now consider what this means when you look in this type of imbalance.

Among other things, our federal budget today churns to provide a very low share of the budget for children, continually decreasing shares for investment and for programs that might enhance opportunity, continually decreasing shares of an old-age budget for those

people who are really old, a strong encouragement for people to retire now for one-third or more of their adult lives, and within healthcare, greater rewards for acute healthcare than prevention, greater rewards for chronic treatments than for cures, and greater rewards for specialization than primary care.

Those are built into the laws and they are built in in a way that allows the Congress and the President not to address them at all in any one year.

To achieve these various negative results, we are borrowing more, saving less, investing in our future less, and increasing our reliance on foreign lenders. This, I would argue, is a budget for a declining nation.

To make this more concrete, it appears that under current law, sometime between 2015 and 2020, revenues will be sufficient only to cover the cost of Social Security, Medicare, Medicaid, a smaller defense establishment, and interest on the debt. Nothing, nothing is left over for children's programs, for infrastructure, for justice, for running the departments of government, or even turning on the lights in the Capitol.

Now, how did we reach this point? Over most of the first two centuries of the United States, Congress did not put a long-term budget into imbalance for one simple reason. As I mentioned, most programs were discretionary in nature.

With the significant growth of permanent mandatory programs and with the growth in permanent give-aways in the Tax Code, we have moved further and further away from a discretionary budget over which Congress, the President, and, most importantly, the voter have much say. This makes absolutely clear that true budget reform must first deal foremost with these automatic growth features.

So the first set of suggestions I make, and, again, the details are in the testimony, is that reform move away from a budget process almost entirely geared toward the short run. The short-run focus is given an extraordinary incentive for Congress and the President simply to move the cost of government actions, both spending increases and tax cuts, outside the budget window.

Now, one way to change that budget process is to ask that the President first submit a long-term budget. Another possibility is that Congress request from the President that he submit a budget where mandatory spending in no future year is projected to exceed some fraction of total spending such as 50 percent.

Now, I agree that I am only at this point trying to capture control of symbols by the ways we present things, but those symbols are extraordinarily important. It does not ensure that solutions will be adopted, but it does give the long-term budget the attention it deserves and does not get now.

Now, the second set of reforms I want to mention are ones that are obvious to you in other lights and that is that we move directly to reform programs themselves.

In my testimony, I suggest again a variety of means including commissions that have teeth, including a strong commitment by both the President and the Congress to follow through on recommendations, not on every detail, but on the recommendations.

Absent broad significant reform of programs which we always need, there are ways to control the growth in programs and that means dealing with the automatic growth rates in those programs.

One set of reforms, it is a tentative reform because you still need real reform, but is simply to cut back on the growth rates, the causes of the growth rates in those programs. It does not make the programs better. It just does not mean that they automatically absorb all the future revenues to the exclusion of other options for government.

Now, an even more modest set of reforms is to implement triggers. Rudy Penner and I have suggested that policymakers can develop triggers that can be pulled at certain trigger points to automatically lower growth rates in programs that are expanding at unacceptably high rates.

For instance, Social Security retirement ages might be gradually increased, our future benefit growth gradually slowed when the actuaries project future balance.

Triggers were also reforms supported by the signers of a recent statement taking back our fiscal future. These signers included two of the three witnesses here at the table, Maya MacGuineas and myself, as well as the first three Directors of the Congressional Budget Office, both Republican and Democrat.

Now, triggers are not superior to systemic reform. Far from it. However, triggers can control spending and prevent the budget situation from getting worse while politicians are engaged in more protracted debates about more meaningful and fundamental reform.

And the final list of suggestions I have, and, again, I do not want to discount them, have to do with the way that the budget is reported. The budget rules today obscure reality and reduce accountability.

The comedian Flip Wilson once used to complain the devil made me do it. Our elected officials do him one better by saying the budget made me do it. Like Flip, however, Congress and the President have more control than they say.

My goal here is to present the budget in a way that allows Americans to hold you, our elected officials, accountable for both the laws you pass and for the changes that are borne of not acting at all.

Put simply, I want budget documents to start by showing all sources of growth together, both that which is newly legislated and that which has been legislated in the past. Thus, when the President's budget is presented, it would report first all the changes the President proposes for both direct and passive action. That does not change the law, but it says that the President's budget including all the changes that are forthcoming is something for which he accepts accountability.

We essentially get this type of budget or this type of readout now only for the discretionary spending budget. As I say, this type of budget reform does nothing more than restore reporting on the budget to what it was for almost the first 200 years of our nation's history since most spending was discretionary.

In sum, government must restore confidence in both our financial system and the budget. I do not think we should discount the ex-

tent to which solving this financial crisis in part requires some faith both by Americans and by foreign holders of our debt that we are going to get our long-term budget in balance.

Every day that we maintain an imbalanced long-term budget, we impose additional risk on the American people.

Among the possible process reforms to me to which I would give priority are to address the long-term budget, to try to adopt direct reform processes in which the Congress and the President pledge ahead of time that action will follow upon recommendation, and recommendations, by the way, that I think should be developed in a nonpartisan way which we can also discuss.

I suggest that triggers and similar procedures can be set up as backstops while reforms are being considered and improved reporting of the budget would help us hold elected officials accountable for both what they legislate and the changes they allow to transpire under a current law that could have been amended.

No budget process is perfect. No budget law actually reforms our system to do what we might end up having to do. But reforming the process can restore confidence to the markets and put all of us on a path towards better government.

Thank you.

[The prepared statement of C. Eugene Steuerle follows:]

PREPARED STATEMENT OF C. EUGENE STEUERLE, VICE-PRESIDENT,
THE PETER G. PETERSON FOUNDATION*

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE: It is a privilege, as always, to join with you—this time to try to address one of the nation's most daunting and increasingly pressing challenges, which I will define simply as restoring sensible balance to the long-run budget of the government of the United States. Absent such reform, we have a budget that increasingly looks like that of a declining nation. As I will demonstrate, while short-term imbalances have occurred before, these long-term imbalances are a relatively new phenomenon in the history of this country. I am also honored to testify today with two of the most distinguished experts attempting also to deal with this issue.

The urgency of our fiscal situation has recently been intensified by the immediate revenue and spending demands imposed by the collapse of several major financial institutions. This collapse imposes large costs on our citizens as homeowners, workers, and, now, taxpayers. There are disturbing parallels between the factors that have contributed to this mortgage- and debt-related crisis and the deteriorating fiscal outlook of the U.S. government. Most importantly, there is a dangerous disconnect between the parties who benefit from various practices and those who pay the price, while both public and private sectors failed to mitigate related risks in the face of clear and compelling warning signals.

Consider how we intend to pay for the reform being implemented to stem financial collapse. Just where do we think the money is coming from? Absent efforts to get the long-term budget in order, and to reduce our current account deficit that partly results from our importing more than we export, we are likely to borrow yet more from abroad, often from countries whose interests may not be the same as ours. The current world-wide economic slowdown and the crisis in our financial markets adds to the risk that foreign lenders at some point will reduce their demand for our debt and lend to us only at increasingly higher cost. Alternatively, we might directly or indirectly attempt to pay by printing money and trying to inflate our way out of the problem. Either way, the financial crisis has added to risks that arise from our failure to deal with our long-term budget and vice-versa.

In my testimony, I will argue strongly that we do know how to significantly mitigate the risks imposed by our long-term fiscal outlook. The complications are polit-

*Any opinions expressed herein are those of the author's and are not meant to represent those of the foundation or its trustees. The foundation is dedicated to increasing public awareness of the nature and urgency of several key challenges threatening America's future, to accelerating action on them, and to working to bring Americans together to find sensible, long-term solutions that transcend age, party lines and ideological divides.

ical, not economic. Budget reform can and should focus on all of the following three approaches:

- Changing the budget process—so the long-term budget is tackled first, or, in the situations where emergencies arise, at nearly the same time as the shorter-term budget;
- Directly reforming programs and setting up processes likely to achieve that result;
- Reporting on the budget in a way that holds elected officials accountable for changes both newly enacted and already built into the laws.

In every case, there are a variety of mechanisms that might be employed—some better than others, but many much better than current practice. I will touch on several. Just as in confronting the financial crisis, however, the important point is that restoring confidence requires that something be done NOW.

DEFINING THE PROBLEM IN ORDER TO FIX IT

Before getting into details, we must address briefly the nature of the problem. Put simply, we are dealing with a budget problem without precedent in the United States. We are in the midst of what I have labeled the nation's "third fiscal turning"—a time when we must change the fundamental paradigms through which we both think about and set the nation's fiscal policies. The previous two fiscal turnings—at the nation's founding and during the progressive era's response to powers unleashed by the industrial revolution—differed in the adjustments required, but not in the fundamental problem. In all three cases, the nation had to fundamentally reform its fiscal policy so that it could better find and allocate limited resources efficiently to meet the nation's needs. And in each case we had to remove powerful institutional barriers to achieve that goal.

Never before in the nation's history has so much been promised to so many people for so many years into the future. Little or no slack remains to address new needs, accommodate new wants, take advantage of new knowledge, or meet new emergencies. Indeed, our current laws essentially specify how most, all, and then more than all of the revenues of the government will be spent for an eternity. While some recognize that the growth rate at which these promises compound cannot be sustained arithmetically, fewer recognize the increased cost and strain put on society today—not some day in the future when some trust fund balance or other measure hits some magic asterisk.

Simple arithmetic tells us that when increasing shares of our national income goes for items that are not priorities, then decreasing shares inevitably go for priorities.

Consider. Every day our federal budget churns to provide:

- A very low share for children, who already on a per capita basis receive only about one-fifth what is provided to the elderly;
- Decreasing shares of the budget for items that might be labeled as investment, almost no matter how defined;
- Decreasing shares of the budget for those programs that might enhance opportunity;
- Increasing shares of an "old age" budget for those who are middle age;
- A strong encouragement for people to retire for one-third or more of their adult lives at time when we are experiencing low or negative labor force growth;

- And within health care,
 - Greater rewards for acute health care than for prevention;
 - Decreasing shares of government health care support for families in their working years;
 - Higher subsidies for the richer workers than for the middle class;
 - Greater rewards for development of chronic treatments than cures; and
 - Discouragement of primary care in favor of specialization

To achieve these negative results, we are borrowing more, saving less, investing in our future less, and increasing our reliance on foreign lenders.

This is a budget for a declining nation.

Meanwhile, Congress and Presidential candidates find themselves in a straight-jacket—less and less in control of their own budgets. Indeed, my projections show that the next President is liable to have no flexibility whatsoever in absence of dramatic reform of the budget.

To make this more concrete, it appears that under current law, sometime between 2015 and 2020, revenues will be sufficient only to cover the cost of Social Security, Medicare, Medicaid, a smaller defense establishment, and interest on the debt. Nothing will be left over for children's programs, infrastructure, justice, or turning on the lights in the Capitol.

While much of government is getting crimped, every year the budget increases the lifetime promises to people in this room for when they retire by about \$20,000. Thus, couples making a combined income of about \$100,000 and retiring today will receive about \$900,000 in lifetime Social Security and Medicare benefits; for similar earning couples between the ages 41 and 45 today, that package increases in value to about \$1.4 million. These are among the large promises that keep growing over time to the increasing exclusion of almost everything else that government could do.

As another example, last year a Democratic Congress and a Republican President essentially allowed spending on the three major entitlements to increase by over 5 percent, or significantly more than the rate of growth of the economy, while letting programs for children grow by less than 1 percent, thus getting a smaller share of the national pie. Many of these children's programs declined in real terms as well.

How did we reach this point? Since the focus of today's hearing is on budget reform, I cannot go into the depth I would like. However, the history is vitally important because it tells us of the factors that we must now avoid.

Bad budget or fiscal policy is not new. Many times in the past our budget was unnecessarily imbalanced. What is unique now is that those temporary imbalances were just that—temporary. No one locked in the future.

Increasingly over the past few decades, however, elected officials have discovered more and more how to give away money not just for today, but for the future—leaving future generations the requirement to pay for it.

Meanwhile, the competition between major political parties has put us in a classic “prisoners’ dilemma,” where if one side behaves in a fiscally responsible manner, it only enhances the power of the other to try to give away the future for what it wants. This “two Santa Clauses at the same time” policy (tax cuts without paying for them; spending increases without paying for them) may appear foolish from above—it certainly doesn’t enhance our belief in Santa Claus. But the mantra in each party is that it has to play Santa Claus as much as the other party or else it loses political power. Another mantra floating around political circles is that President George H.W. Bush lost the Presidency by attempting some budget reform, including modest tax increases, and President Bill Clinton lost the Congress for the same reason—even though the amount of budget and tax changes enacted in each case were relatively modest and small relative to what is required today.

Whatever past short-term profligacy in the budget, over most of the first two centuries of the United States Congress did not put the long-term budget into imbalance for one simple reason. Most programs were discretionary in nature. In theory that meant there were few permanent commitments on the give-away side of the budget. Revenues would grow with the economy and eventually overtake any previous level of spending, no matter how high. With the significant growth of permanent “mandatory” programs (sometimes called entitlements), and with growth in the permanent give-aways in the tax code (sometimes called tax entitlements), we have moved further and further away from a discretionary budget over which the Congress, President—and, most importantly, the voter—have much say.

But even permanent programs do not necessarily cause the long-run budget to be out of balance, whatever their inefficiency in foreordaining spending for a future that is still unknown. It is the built-in, automatic, growth features of some of these programs that wreak havoc on future budgets. Particularly in health and retirement programs, those features give the programs higher growth rates than the economy, essentially no matter how fast the economy grows.

Thus, for example, Social Security, Medicare, and Medicaid are expected to absorb between 6 and 9 percent more of the gross domestic product (GDP) within a few decades than they do today. And much growth is also built into several tax subsidies.

This makes it absolutely clear that true budget reform must deal foremost with those automatic growth features.

CHANGING THE BUDGET PROCESS TO ADDRESS THE LONG-TERM BUDGET

Our budget process is almost entirely geared toward the short-run. This short-run focus has given an extraordinary incentive for Congresses and Presidents simply to move costs of government actions, both spending increases and tax cuts, outside that short-run budget window.

Due to the extraordinary growth in the promises they have made, the long-term budget remains out of order no matter how much reform is achieved over the short run. Every business and household knows that it should not sign contracts today for most of what it hopes to spend decades from now. All long-term budgets must have slack and be adaptable, not totally set in advance of an unknown future.

Of course, crises—and we have many of them over time—often require quick action for the short run. Keynes' warning that we are all dead in the long run was a call to action when necessary, not a call to make unsustainable promises for the future. Short-run crises cannot become excuses for neglecting the long-term budget. And, as I have noted, our ability to deal with short-run crises—especially financial ones like the current crisis where there is a need to restore confidence—actually calls for better control over the long-term budget.

We need to fundamentally change the current dynamic. One way is to change the budget process so that the President first submits a long-term budget, and then Congress tackles those issues. Congress could also set aside periods—it can still be within an annual cycle—when the long-term issues are given priority. Still another possibility is for the Congress to request that the President submit a budget where mandatory spending in no future year is projected to exceed 50 percent (or some other fraction) of available revenues. The Congressional Budget Office could be tasked with measuring whether his budget met this goal, and the leaders of Congress could pledge themselves in advance to send the budget back to the President when it fails to meet the requirements or vote to make an exception, thereby going on the record in support of the President's proposed "seizure" of future resources. I realize that capturing control of these symbols and processes does not insure that solutions will be adopted, but they provide examples of ways to give the long-term budget the greater attention it deserves on an ongoing basis.

DIRECTLY REFORMING PROGRAMS

Nothing, of course, is superior to directly reforming programs and setting up processes likely to achieve that result. One type of process has been promoted recently by a number of top level officials and budget experts, including the President of the Peter G. Peterson Foundation, David Walker: to try to set up a commission that has teeth to it to address a number of fundamental long-term challenges.

Many commissions, of course, do not succeed. To succeed, they must be set up with a strong commitment by both President and the Congress to follow through on the recommendations, although not necessarily on every detail. A good example of successful reform along these lines can be seen in the recent British reform of both their Social Security and private pension system—a reform that started with a White Paper and proceeded to cover items ranging from later retirement ages to greater levels of private retirement plan coverage for low and moderate income workers.

Another model of reform was given by the efforts leading to the Tax Reform Act of 1986. As economic coordinator and original organizer of the 1984 Treasury study that led to that reform, I am somewhat biased here. But a common element to both the British effort and that 1986 tax reform effort is that the original suggestions were largely crafted by nonpartisan staff and experts, allowing a vetting of the broad policy concerns before the lobbying performed its necessary role. Contrast that process, if you will, with much current U.S. legislation, where politics and lobbying begin playing their role too soon.

In the ideal, direct reform would address program specifics. In Social Security, for instance, it would address not only the imbalances in the system, but it would take on the failure of the system to reduce poverty much for the additional amounts spent each year, would tackle the fundamental discrimination against single heads of household, and would discourage working less.

ADJUSTING DOWNWARD AUTOMATIC GROWTH RATES

Obviously, there will be periods where it is difficult to reach agreement on what an ideal reformed system would be. In those cases, a modest set of reforms can be enacted in lieu of or as a backstop to fundamental reform. These more modest reforms would simply adjust the automatic growth rates downward in programs with such high growth rates.

In Social Security, for instance, one can index lifetime benefits to grow at a slower rate through increases in retirement ages or to index annual benefits to grow at less than the rate of wage growth. The former, I believe, is more progressive than the latter and more progressive than across the board increases in Social Security tax rates, but that is an issue for analysis. In health care, the problem is more complicated, because of open-ended budgets in Medicare and the tax subsidy for buying employer-provided insurance. Still, tightening methods can be developed—for instance, through fixed budgets for any government program, as in other countries, or through conversion toward voucher-like programs (with safeguards for insuring health insurance access for the less healthy). In both cases, increases in spending—

either in a total budget or in size of credit—is and would be voted on by Congress each year.

TRIGGERS

An even more modest set of reforms is to implement triggers. Rudolph Penner and I have suggested that policymakers can develop “triggers” that can be pulled at certain “trigger points” to automatically lower growth rates in programs expanding at unacceptably high rates. Triggers were also a reform supported by the signers of a recent statement, “Taking Back Our Fiscal Future.” These signers included two of the three witnesses here at the table (both Maya MacGuineas and myself), as well as the first three directors of the Congressional Budget Office.

Triggers are not superior to systemic reform. Far from it. Much preferable are discretionary efforts that reform programs over time. A trigger actually has two major components: (1) a “triggering event”—that is, an event that forces the pulling of the trigger; and (2) a “triggering adjustment”—that is, a “hard” adjustment applied immediately to the existing law or a “soft” adjustment in policymaking procedures. Because pulling the trigger occurs automatically when the event occurs, a hard trigger adjustment creates two growth paths, which differ depending upon whether the triggering event occurs.

For instance, Social Security benefits might grow at one rate when actuaries project long-term balance and another when they project imbalance. An imbalance would trigger a reduction in the rate of growth of benefits. Obviously, there are many options for measuring imbalances and determining alternative growth rates. The design of the triggering event and adjustment, therefore, will be a matter of legislative debate.

Depending upon both the triggering mechanism and the triggering consequence, triggers may be inferior to adjusting automatic growth rates directly, which I just discussed. For both economic and political reasons, however, sometimes triggers may be the only practical way of overriding automatic, eternal growth in programs.

In the current political climate, triggers have an appeal over paring the growth of programs directly. One major argument used against broad reform is that no one can predict the future and that the economy may grow enough to pay for these programs. In fact, the argument is technically weak since retirement and health programs actually grow faster when the economy grows faster. On the other hand, triggers would allow policymakers to skip that debate by simply responding that if future growth makes these programs more affordable in the future, the trigger won’t be pulled.

A related advantage of triggers is that they can be based on objective and transparent criteria. Further, triggers can control spending and prevent the budget problem from getting worse while politicians are engaged in a protracted debate about more fundamental reforms. Of course, it is entirely possible that a future Congress might step in and override the triggered adjustment. Fine. At least there will have to be a debate about options. At present, the budget dynamic allows lawmakers to dodge responsibility.

For instance, suppose Medicare were to grow at 7 percent absent the pulling of the trigger, but only 4 percent if the trigger were pulled. Then, for Congress to restore the 7 percent growth path, it would have to choose that additional growth over other spending, say, for community development. Any departure from using the trigger for Medicare would also have to be paid for with tax increases or other entitlement cuts under pay-as-you-go rules.

REPORTING ON THE BUDGET IN A WAY THAT HOLDS ELECTED OFFICIALS ACCOUNTABLE

One of the most important reforms that this committee should consider is how it reports on the budget. The budget rules today obscure reality and reduce accountability.

The comedian Flip Wilson used to complain, “The devil made me do it.” Our elected officials do him one better almost by saying “The budget made me do it.” Like Flip, however, Congress and the president have more control than they say.

Here is a simple table from President Bush’s 2008 budget documents showing the spending changes he suggests should occur by 2013. I use the word “suggested” because these numbers sometimes show little resemblance to proposals.

PRESIDENT'S PROPOSED BUDGET FOR 2013

[In billions of 2007\$]

Resource	Amount
Additional resources available in 2013 compared to 2007	
Total	+478
How these resources will be spent in 2013	
Social Security	+167
Medicare	+73
Medicaid & SCHIP	+67
Net Interest	+31
Other Mandatory	+49
Discretionary Non-Defense	-60
Defense	-38
Deficit Reduction	+189
Total	+478

The message is clear: of the \$478 billion extra in real revenues that the President proposed collecting in 2013 over and above revenues in 2007—largely due to economic growth—Social Security would get about 35 percent, Medicare and Medicaid about 29 percent. Defense not only would get no additional spending out of these additional revenues, it would drop dramatically in real terms.

Wait, you say. Didn't President Bush propose big increases for defense and big cuts for Medicare and Medicaid? Well, he did and he didn't. That's why the budget in its standard form is so confusing.

What the President did was propose a lot more for defense for one year (2009) and then suggested in his budget accounting that those increases would immediately tail off so he could get his future deficits to look better. All those newly hired troops and defense industry workers presumably would be fired in the next couple of years. As for the costs of the war in Iraq, they are on top of this one-year buildup, but the president showed only one part of one year's expense in the budget.

On Medicare and Medicaid, the President did propose cuts, but from a fairly high growth path. Meanwhile, the Social Security budget would keep swelling as baby boomers retired and because new individual accounts for workers would be funded under his proposals.

On the tax front, he suggested that the alternative minimum tax not be allowed to wrap its arms around more taxpayers, but then he counted on the additional revenues it would bring in.

The budget needs to be presented in a way that allows Americans to hold the President's and Congress' feet to the fire. Our leaders must be held accountable for both for the laws they make and for changes born of their often-calculated inaction. They must accept responsibility for growth of spending outside the annual appropriations process that is hidden by today's scorecard.

A better scorecard would present first all the changes that the President proposes through both direct and passive action. Current spending levels, no matter what the legislative source, would be compared first to past spending levels. We essentially get this type of readout now only for "discretionary" spending—that dwindling share of the pie that isn't already committed to ongoing programs.

My proposed reformed scorecard represents nothing more than a return to the basic budget accounting that occurred naturally in the past.

One great advantage to focusing first on the total change in spending levels is that cuts look like cuts and increases like increases. Suppose an education program without automatic growth built in would need to grow by \$5 billion just to keep up with inflation, while the president proposes a legislative boost of only \$1 billion. Then the budget's initial scorecard on total proposed change should show a \$4 billion cut in real (inflation-adjusted) terms as what he would like to achieve in aggregate. Similarly, if a health program would grow automatically at \$70 billion, but \$20 billion of that increase is just inflation, and the president proposes a \$10 billion legislated cut from the current law growth path, our revised table would show that on net he suggested a \$40 billion real expansion.

Other budget accounting is still required. For a variety of legislative purposes, it is necessary to know how much of total change is due to accepting past laws' built-in growth and how much to new legislation.

In addition, it should be clear by now that failure to acknowledge the potential costs associated with budget activities does not serve us well over the long run. The

pretense that Fannie Mae and Freddie Mac were somehow not federal responsibilities and leaving them out of the budget misrepresented the significant financial risk they posed to taxpayers. Similarly, relying on emergency designations to provide funding for everything from ongoing military activities to disaster relief undermines budget discipline and sound accounting practices. Policy makers and the public should be able to rely on the budget as providing a comprehensive presentation of the federal government's exposures—which it currently does not. It would be extremely useful to have a better idea of what else is already “out there” in the form of explicit or implicit liabilities before undertaking costly new tax or spending initiatives. One step would be to establish rigorous rules and concepts that would help to control further attempts to get “something for nothing” by minimizing unmeasured claims against future budgetary resources.

CONCLUSION

Government must restore confidence in both our financial system and in its budget. Every day that we maintain an imbalanced long-term budget, we impose additional risks on the American public. Once that is done, it will be easier to have a discussion about priorities. Right now our priorities orient resources away from investment, from children, from the oldest and most needy of the elderly, and from preventative and primary health care, while encouraging less saving and work.

There are a variety of budget processes that can be set in place quickly to restore confidence in government. These processes range from those that would give greater priority to the long-term budget; direct reform processes in which Congress and the President pledge that action will follow upon recommendations made in a non-partisan way; triggers and similar procedures that can be set up as back-stops while reforms are being considered; and improved reporting on the budget that would hold elected officials accountable for both what they legislate and the changes they allow to transpire under a current law they could have amended.

No budget process is perfect. A process is only a means to an end. But reforming the process will enable us to set priorities more clearly and with more accountability, help restore confidence to the markets, and put us on a path toward better government for all.

Chairman SPRATT. Thank you very much, Dr. Steuerle.

We have a list of budget process ideas in the table of contents to the hearing package. I am not sure if you have gotten it. But just to get each of you on record quickly, I am going to use my time to ask you if you would in a couple of sentences, no more, give us your position on statutory PAYGO and discretionary spending caps to start with.

Ms. MacGuineas.

Ms. MACGUINEAS. For the record, we support both of those, statutory PAYGO and discretionary spending caps.

Chairman SPRATT. Any changes you would propose?

Ms. MACGUINEAS. No. This is from the Shuler legislation or is this just ideas?

Chairman SPRATT. Well, this would involve making PAYGO a statutory rule.

Ms. MACGUINEAS. No. I have testified before this Committee saying we think that is not a sufficient answer, but that making it statutory is a positive idea.

Chairman SPRATT. Okay. Richard.

Mr. KOGAN. Speaking for myself, PAYGO works a lot better when it follows upon after a budget deal and it is used to enforce a budget deal against backsliding.

We are not really now in a position where the two parties are in agreement upon what the shape of the budget should be for the next few years, which is one reason PAYGO has not been working as well as it should right now. Nonetheless, whenever PAYGO can work, I think statutory PAYGO is an improvement. Excuse me. I think statutory PAYGO and rules-based PAYGO working together

will work stronger than either of them can by itself. And so I would support those. I would not expect either of them to work when there is no overall agreement on what we should do.

I feel even more strongly with respect to discretionary caps, that these have to exist following an agreement, a multi-year agreement between the President and the Congressional leadership, hopefully bipartisan leadership, on what the aggregate discretionary levels should be over the next couple of years.

When that has happened, discretionary caps have worked just fine. And I would also, therefore, support them under those circumstances as well.

Chairman SPRATT. Gene Steuerle.

Mr. STEUERLE. Mr. Chairman, you have me in a little bit of a box here. I think these types of rules can work, but they need to be backing up a process that really is going towards long-term balance.

In some sense, they worked a lot better out of the 1990 and 1993 budget agreements because those agreements first enacted a number of changes that were important for getting the budget in balance and then they were backed up by these procedures to try to prevent too much change from those agreements.

My complication with these two rules as they just sit by themselves is they are creating an extremely unlevel playing field and I gave one example in my testimony.

Just last year, this Democratic Congress and this Republican President together, perhaps not on agreement, but in effect allowed the big three entitlement programs to grow by about five percent while children's programs grew by one percent. And, in fact, most of them declined in real terms.

That is the result of these types of rules operating by themselves. So I favor these types of rules when they tend to back up a system that is working. I have some question about how well they work when we do not deal with the bigger issues that face us.

Chairman SPRATT. Good point. Thank you, sir.

Ms. MACGUINEAS. Could I add one more thing on PAYGO?

Chairman SPRATT. Certainly. Certainly.

Ms. MACGUINEAS. Just that I think we are probably the strongest advocates of PAYGO in this. Well, we with your group have had PAYGO pep rallies, so we are in love with PAYGO. But it does not work obviously if there is no commitment to it.

And clearly right now, if PAYGO is waived every time it gets difficult, it is not going to do us any good. But if PAYGO forces tough choices like dealing with how are you going to pay with the alternative minimum tax and forces Congress then to get in the game and deal with the other issues that are going to make PAYGO challenging in the future, then it can really do its job.

So I do not think restructuring PAYGO is nearly as important as establishing a political commitment to it.

Also, just on the point of PAYGO must be dual sided. If it is applied only to spending, but not to taxes, it creates the largest, most inefficient loophole to do all budgeting through the Tax Code, a practice we are already starting to abuse. So I think dual-sided PAYGO is critical.

Chairman SPRATT. Mr. Jordan.

Mr. JORDAN. Thank you, Chairman.

Appreciate all your testimony.

Mr. Kogan, I particularly appreciate your history lesson. And like the Chairman, I did not think we would be getting Constitutional amendments on how that would reform. Other than the balanced budget amendment which I, you know, had thought about, I had not thought about the others.

Also, I appreciate your support of the amendments that our party offered last year where we had zero growth amendments to many of the appropriation bills and how you are going to support those in the future based on your testimony.

But both Ms. MacGuineas and Mr. Steuerle, Dr. Steuerle, talked about how there is way too much short-term focus around here. And, I mean, I think we saw an example of that yesterday with the CR that was in a continuing resolution, you do not expect to have \$86 billion of new, you know, increases in spending, but that is exactly what was voted on here yesterday.

We all know the entitlement problems that are going to be confronting us real soon. Do you think, and I want to come back to something Mr. Steuerle said in his testimony, do you think we can get there without some kind of outside commission, someone other than the politicians, taking a look at what needs to happen, and, again, I point to a Grace Commission type thing, or something idea that you may have? Do you think that would be an essential first step in actually getting a handle on where we are headed with the entitlement programs?

And we can just run down the line, if you would like, starting with Ms. MacGuineas.

Ms. MACGUINEAS. Well, we support a commission because we support sort of any ideas that move these issues forward. So ideally I would certainly like to see members of Congress sit down and actually work on this on their own.

I entered into an interesting exercise about two years ago where as an independent, I worked with a Republican from the Bush Administration and a Democrat from the Clinton Administration and we tried to come up with a balanced Social Security reform plan because we always use this line, well, Social Security is an easy one. We can probably do that in a half an hour.

And it was not easy. It took us about nine months and we are not running for office. So it is really tough, but I think ultimately the farther away you move the policymaking from the political process, the more difficult it is going to be able to take it back from the commission into the political arena.

So I think the best step is if you have a working group, a bipartisan working group of members that focus on sort of a full-fledged Social Security reform plan and I think the first step at healthcare reform, we do not know how to fix Medicare and Medicaid and healthcare yet, but I think you could sort of take the first bite out of that apple, and fundamental tax reform.

But realistically, given the partisanship, given that every election seems more important than the previous one and there just always feels like for the parties there is too much to lose, a commission may be the best way to go and get started.

I would bring sitting members and former members on to that commission because I think getting political buy-in throughout the process is critical.

So, you know, we support every single effort that focuses on these things. So a commission, if people want to start it, great. Bipartisan working group, I think even better.

Mr. JORDAN. Mr. Kogan.

Mr. KOGAN. Speaking for myself, but also in this case for the Center on Budget and Policy Priorities, which is where I am employed, we like the idea of a commission if the political prerequisites have been met and we think it would probably do more harm than good if they have not been met.

From our point of view, the examples of successful commissions were the Greenspan Commission dealing with Social Security in 1983 and the Bipartisan Budget Summit in 1990. The latter is not thought of as a commission, but, in fact, it was. It was a group of members of both parties and representatives from the President who got together and basically separate from the legislative process hammered out a big deal and then brought it back to the legislative process.

Examples of failed commissions are the Kerrey-Danforth Commission and the Grace Commission, which is the one you mentioned. The Grace Commission, I think, only succeeded in killing trees.

So my thinking is that if a commission is set up so that Congress does not have to deal with the problem but can say, hey, I voted for a commission, that does more harm than good for the same reason that I think, by analogy that I think that long-term budgeting takes away from dealing with the real problems right now this year. It allows you to postpone real decisions.

However, whenever the President and the Congressional leadership, preferably bipartisan, says we are ready to go, then that is the time. And if the President and the leadership say and, yes, let us use the cover of a commission, fine, no problem. And if it takes a statute to give that commission a fast track because the President and the bipartisan leadership have already agreed that they want a fast track, no problem with that either.

Mr. STEUERLE. Both the Chair of the Peterson Foundation, Pete Peterson, and the President, David Walker, have signed a statement, as you know in the New York Times, that actually did call for a bipartisan commission. Those are personal views. The Foundation per se does not have views on this issue.

My own view is that a commission can work and I tend to favor it in this case for a variety of reasons, but it is not the only process.

And by the way, I think every statement Richard just made went to the argument that process did matter as he discussed when commissions can work and when they cannot.

And I want to dwell a little bit on that. Most commissions have failed because they have actually become excuses not to do something. You really need a commitment ahead of time that the commission is going to be taken seriously.

And indeed one time that is very possible is right at the beginning of a presidency. You know, every President I have known in

recent years, in the first year of his presidency, usually got the package he wanted through Congress.

And so if the President wants to use a commission to really figure out how to in a nonpartisan way try to address these issues and deal with them, I think it is a viable institution.

I will say there are other methods. I was coordinator of the Treasury's tax reform effort in 1984 that led to "The Tax Reform Act of 1986." And it was an extremely grueling process even dealing with totally nonpartisan staff just to deal with the issues. I mean, there are real dilemmas in public life and they are often hard to talk about in broad public context.

And somehow or another, we need to empower a commission or a staff, and we can talk about other sorts of reforms I would do in government to perform steps, but to really empower nonpartisan staffs to be able to really come up with viable solutions before the lobbyists come in and before the, in all honesty, the politics comes into play. Politics should be the deciding factor, but it should not be the initial gatherer of information.

Mr. JORDAN. Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Let me preface what I am going to say here about a little something and then we will ask you a question because budgets are more than just numbers. Sometimes we get caught up in dealing with numbers and that sort of drives us.

I served in the State Legislature and was State Superintendent of Schools, so I have built budgets and then I had to run a budget. But when we did our State budget, we actually had two budgets. We had a capital budget and a current operation budget. And at the state level, that works a little better because you never put nonrecurring money in a current operation.

At the federal level, all your dollars come in and whether they are nonrecurring or recurring, they all just get piled in. And it seems to me that has always been a problem because there are going to be a lot of one-time monies that show up and they wind up in programs that need that money every year.

But when we talk about reworking a budget process, we really talk about by and large, I think this is true, we talk about reworking the process, correct, by and large? And if all we do is redo the process, I mean, you can redo a process, but then when you start filling the numbers in and you do not have enough money to fit the process, that is where your problem comes.

So my question to each of you is if you really want to have a true commission to deal with this, and I know this is a real thorny issue, but you really have to look at the revenue side as well as the expenditure side and you have to determine are the revenues that are coming in fair. You know, are we being fair to all parties who are participating in this thing we call a budget.

Am I on one side making my contribution that I should be making vis-a-vis the benefits I get from being a citizen of the United States of America or am I on the other side being healthy and able to do it, in fact, more than I should be getting to get there?

Now, I realize this is a much bigger question than what we are talking about, but it seems to me if we are going to do this, we

have really got to deal with a comprehensive piece to ever get to where we want to get to. Otherwise, we will always be dealing with a piece of the pie and never really fix the full ingredient.

You understand my question? I would really be interested in each one of your comments on that because it seems to me we have got two pieces and we are not really dealing with the whole piece to get a budget together.

Mr. KOGAN. If I can start because I already know what I want to say. It is nice and simple.

Maya said that whenever there is a budget negotiation, and I think also in terms of a commission, everything needed to be on the table. And I think she was in shorthand saying the same thing that you are saying, that one needs to have a balanced look at what is going on in the Tax Code and what is going on with spending programs.

Overall the debt problem that we foresee in the future is not per se it is an entitlement problem. It is that there is not enough revenues to cover a promised spending or too much promised spending given the amount of projected revenues, however you want to phrase that. And that is an overall problem.

So even if large portions of the budget are not by themselves contributing to the problem, for example, every entitlement other than the big three is scheduled to fall as a share of GDP indefinitely and has fallen and they have fallen as a share of GDP over the last 30 years, they are not the problem. The fact that they are entitlements is an irrelevancy. They are relatively small programs shrinking as a share of GDP while doing their job.

Nonetheless a reasonable person could say that as a matter of values, he thinks increasing a prescription drug benefit under Medicare is more important than maintaining an existing smaller, nongrowing program and, therefore, he would cut it. Everything is about making tradeoffs against everything else.

And because the budget is a unitary whole and because it should be a unitary whole, therefore Maya's statement that everything should be on the table should be expanded to that means everything. It means not only tax expenditures but tax rates, tax coverage. It means not only programs that are growing very quickly such as the big three or in the case of Medicare and Medicaid which are growing in essentially an unconstrained way very quickly, but even programs that are not growing at all.

Ms. MACGUINEAS. So I would certainly agree with your statement that budgets are more than numbers and they really are. They are about tradeoffs and their priorities. And I think the more that we can approach this topic in a holistic manner, the better kinds of choices we are going to make.

Really you cannot think about what a modern public investment agenda looks like when you do it by tiny subcommittees. It is a huge topic and it has to do with, you know, people and economics and markets and many different disciplines.

In terms of specifics, absolutely everything has to be on the table and that means we have to raise taxes and cut spending. And the real challenge is that we are not even close to that point yet, right?

I mean, with your last budget, there was an argument about whether it raised taxes or it did not. Then it did not, but it should

have was my feeling. But there was more of a fight of, you know, how do we handle the tax cuts going forward.

We are fighting the wrong battle right now. We are fighting about which party will not raise your taxes instead of the responsible step of raising taxes. Easy for me to say, I know. But we are not even in the real discussion yet.

And I know it is a negotiation and I know both sides know that this is the truth and nobody wants to go first because they are going to get smacked. But somehow we have to find a process to allow you all to have a discussion where negotiation takes place that you know is the policy that is necessary.

Now, when I look at the specifics, I think everything has to be on the table and not only does it have to be on the table, which does not mean you have to agree to it, you can say Social Security is on the table, but I do not want to cut Social Security, but I think we are going to have to make changes to all those things. I think we are going to have to raise taxes. I think we are going to have to cut all areas of the budget.

I do, however, think that this problem is a spending problem. When you look at the lines, what is deviating from our historical norms is the growth in spending. So I think while the solution is going to have to be tax increases and spending cuts, that is not the same as saying it is going to be 50/50. You have to focus in on the long-term drivers of the imbalances.

And then, finally, on top of just focusing on the numbers and trying to get the fiscal gap closed, we have to rethink our budget priorities which are horribly out of whack. Our level of consumption in the budget is about 85 percent, I think, compared to about 15 percent on investment. You cannot get much more short-sighted than that. Our investments in children is a drop in the bucket compared to what we spend on seniors.

So just to throw another variable into an already incredibly large negotiation, we need to talk about all sides of the budget and also relooking at those priorities.

Mr. STEUERLE. I could not agree more with everything you said. I think everything has to be on the table. That includes taxes. It includes expenditures.

You know, sometimes when I divide the budget up, if we really think about this, and I really think in the end, this is a political issue, not an economic one, that the budget problems we have is a straightjacket we tied around ourselves, you know, as opposed to, say, crime in the streets or children's poverty or foreign terrorists or even the current financial situation where there is some bad that is happening and we are trying to conquer it.

When we talk about the budget and being out of balance, we are talking about a straightjacket that we tied around ourselves. And so what we are talking about here is loosening that straightjacket wherever those knots are tied.

I often think of the budget again as not taxes and spending so much. In politics, it is give-away and take-away. The appeal in politics is to be on the give-away side of the budget, right, the tax cuts and the spending increases? That is what is popular.

But we all know that there is a balance sheet to everything the government does and everything that is done here has a balance

sheet. So the tax cut and spending increase has to be matched somewhere by a tax increase or a spending cut. If not today, then we, as we have been doing, shoving it off on our children. So I think all that has to be on the table.

I do want to reinforce one thing that Maya said with respect to just thinking about spending sometimes not just in terms of spending versus taxes as an absolute level. Let us suppose we all agreed on some tax level that we could agree on. Maybe government is at 18 percent of GDP or 20 or 30, whatever it is. You still have the question about how to make priorities within the spending programs and, by the way, within all the subsidy programs and the tax system.

And right now as I try to give you my testimony, we are shoving money in ways that are against investment, against children, against cures for disease, you know, against all many things that we want.

So as one example, everybody in this room last year got an extra \$20,000 from the government. That is the increase in the lifetime value of your Social Security and Medicare benefits just because that system was on automatic pilot. And the year before, you got about 20,000. The year before, you got about 20,000.

Richard Kogan and I, we are about the same age. We are promised about \$900,000 in Social Security and Medicare benefits. That is just growth from the past that we did not pay for in Social Security tax. A great deal of that, we just shoved off to future generations.

But we did not stop at that. Maya, who I was going to guess, and I am not going to say what her age is, she is promised about \$1.3 million in Social Security and Medicare benefits.

So what we are doing on this automatic growth path within the spending programs is putting more and more money where it is less and less needed. We are financing middle-aged retirement. We are not giving money to our children.

So regardless of what tax level we get to, we have to address this question of where do we want this spending to go and, by the way, where do you want the tax subsidies to go. They are not on a path that we are choosing and it is certainly not on a path that we are choosing well in my view for our country.

Chairman SPRATT. Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. I apologize for getting here late.

And I do not want to plow new ground, but thank you for your comments, particularly the idea that there are no venues where we can rationally talk about going against our stated ideological position, mine in this case no new taxes and for the most part, no spending cuts.

And it does make it very difficult to be the, you know, first person to lead with their chin in this particular arena because it is immediately taken advantage of by the other side even though it may be done in good faith and it is done based on support from an awful lot of folks who do not ask people to vote for them.

So I do appreciate your comments.

I have begun to encourage folks to quit using the word reform with respect to Social Security and Medicare as an example. Re-

form is a nice, fuzzy, warm word for everybody wins. We have to begin using the word renegotiate because that is a little closer to the connotation, Eugene, you were just saying.

We have got to renegotiate that promise. We cannot pay you 900 grand. And so we have to renegotiate that promise. It means you are going to get less as an example than you originally thought under the processes. The sooner we make those renegotiations, the easier it is for you to adjust whatever your expectations were to that new reality.

I have seven grand kids. We have spent all of their money and they will have children that are my great grandchildren and we are working hard to spend all of their money. And it is quite wrong to do that. Everybody recognizes it. It is like mom, apple pie, and the girl you left behind.

I did have one tiny minuscule thing that I have been pitching that the Chairman has given me leave to say something about.

Chairman SPRATT. H.R. 484.

Mr. CONAWAY. And that is in the appropriations process, when we go to the floor and have the knock-down, drag-out fights that we have over spending, if lightning strikes and someone was able to pass an amendment to an appropriations bill that actually eliminated a program or cut spending in a particular area, the perverse system we have is that money goes back to that Subcommittee to spend somewhere else.

So we have this grand theater where we talk about cutting spending and whacking on things that should not get spent and all that kind of stuff knowing full well that the insiders know that it is not the case.

And I have got a bill that would, with all its naivete, would simply say if we win that fight from time to time on a program that does not need to be federalized, that money would go against the deficit or that money simply would not get spent.

I understand there are problems with the Senate, but give me your thoughts on that as well as the idea that if we self-impose a moratorium on new programs that said if you want a new program, you have to eliminate an existing program of like size or bigger, not cut the spending out of that, eliminate the entire program because if your new program, if you cannot find something in that vast array of federal programs out there that is less important than your new program, then what you are telling us is that your program is the least important thing this federal government should do and so why would we defend so.

So those two ideas, very simplistic, very naive in the grand scheme of things, but some help at disciplining ourselves to setting priorities better than we—well, we do not set priorities. We just say yes to everything.

Mr. KOGAN. Two comments. The first is that I like the way you characterize your sort of program-based PAYGO rule which is that you, in essence, you posed the question if this program that I want to vote for is so important, then it is worth paying for. If it is important enough to enact, it is important enough to pay for.

And that is the way I look at the pay as you go rule. And, yet, all the time I hear, including from members of Congress, that what

they are trying to do is extend the AMT relief, for example, or something else is so important that they do not need to pay for it.

And I am with you. I think that is the exact opposite of a logical statement. If something is really important, then that should justify even raising taxes for it or even cutting some other popular program for it. If it is not important enough to do that, then it is, in fact, the bottom priority of all things that are going on.

So I am totally with you there. And I say that because I am totally opposite you on the appropriations lockbox. My thinking on the appropriations lockbox is that it is hard enough to cut funding in an appropriations bill and particularly to eliminate a program in an appropriations bill.

To be able to do that, you generally need a coalition of people who think this is not worth doing and other people who think I would much rather spend it here than there.

By creating a lockbox, you are limiting it to the people who say this is not worth doing and I want all the savings to go to deficit reduction. I think, therefore, if you establish such a procedure, you would end up with never getting any appropriations cuts enacted, that you would do something that sounds good, but that shoots yourself in the foot.

Meanwhile, if you have a determined majority that thinks the way you do, that is to say this program is not worth doing and it is worth dedicating those savings to deficit reduction, you can already achieve that under the existing system by voting to cut that program and then voting against any other amendment that would add money for some other program within that Subcommittee, voting against the Subcommittee bill if it comes back from conference at a higher level than it left the House.

What this requires, of course, is that you keep your majority together and that is always hard. You were not here for my initial statement, but getting governing majorities to do responsible things is just extremely difficult.

Mr. CONAWAY. Just one quick——

Chairman SPRATT. Okay. Sure.

Mr. CONAWAY [continuing]. Push back a little bit. That is——

Chairman SPRATT. Go ahead.

Mr. CONAWAY [continuing]. I cannot hold the majority together on a little, tiny deal. I cannot hold it against the entire Subcommittee bill and the system does not work that way. It does go back to the Subcommittee to spend somewhere else even if we win.

So just, anyway, thank you.

Chairman SPRATT. Mr. Baird.

Mr. BAIRD. I thank the Chair.

I thank our witnesses. We are running out of time and I know you have much more to say on Mr. Conaway's statement.

First of all, thank you for your leadership on this issue. Some of us have met many times on these topics and I am grateful that you are here.

The nation is here today in this context. The whole Capitol is in turmoil, the country is because too many people spend too much money without enough collateral. And, yet, we are doing it ourselves as a nation. So this is an effort to try to restrain ourselves

in a way that maybe the financial markets should have been restrained.

Mr. Chair, I would encourage boldness as we look ahead to the next year. You know, do some mountain climbing. And boldness means you take a difficult line and you do it with elegance and courage. And I think we have lacked that, not under your leadership. I think you have done an outstanding job. I mean, we as a Congress have lacked boldness.

I am not at all adverse to say what Ms. MacGuineas said. She is not running for office. I am. And I think we need to raise taxes and I think we need to lower spending and that includes on entitlement spending.

So I have stepped on the shibboleth of both sides. Our side pledges never to touch entitlements. Their side pledges never to touch taxes. The math does not work. The only outcome of that mutually assured nondestruction maybe is debt on our children. You folks have led the way trying to stop that. We have to act responsibly to do that.

Within the context of the budget rules, I just do not understand something fundamental, why we do not do some of the stuff that has been talked about here which is to say we are going to link any new program with its revenue source and we link that forever.

In other words, if we are going to say that we are going to create a new entitlement, that we estimate the growth of that entitlement and in creation of that entitlement, by God, we estimate and enact in law a corresponding tax increase so that we see where it comes from or a corresponding cut in something else.

And so, too, on the revenue side, if we are going to cut taxes, then we have to also have the guts to say where we are going to cut the spending. And we do not do that. It is not in our budget rules. It is not in our practices and we ought to do it.

And you folks are smart enough to figure out how. I think we ought to do it. I do not think we have an excuse not. The average citizen has to do it. I cannot go to my wife and say let us buy a new car, but I am not going to tell you where we are getting the money from.

So I do not know how best to do it. One symptom of the fact that I think our budget process is not necessarily as prominent as it should be, we have a term limit on this Committee. We are limited to six years. Well, how seriously do we think we take the budget if you sign up for the Budget Committee and you are only there for six years?

I do not know if the Republican Conference has the same rule. The Democratic Caucus does. I think it is rather silly. Just when you are kind of getting the hang of it, off to some other Committee. Many people may enjoy that because you can make a lot more money on other committees for your campaign, but that is not what this Committee is about and it is not what this job should be about.

So I applaud you for the proposed reforms.

And I would just say, Mr. Chairman, let us be bold. Let us talk about linking all spending to revenue and vice versa. Let us have hard and fast rules that make that happen. Let us hold appropriators and Ways and Means members accountable and let us distribute to some greater degree the appropriation thing.

And, finally, I will throw this out, I think we ought to really seriously look at whether the authorizing appropriation disconnect makes sense. To have one Committee that can create a program, but have complete separation really from the Committee that funds the program is kind of silly. And then when that is completely separate from where your revenue source is, it is no wonder we get in this debt.

So there is my two cents. I do not know what the solution is, but if you folks can help us come up with that, I will vote for it.

Chairman SPRATT. We have got two minutes to make it to a vote and we have got three votes. So I think in the interest of fairness to our witnesses, let me thank you for coming today. You made a real contribution. I understand you left lots more grits for our meal in your written testimony. We will take it to heart as we begin the next session of the next Congress.

And I am sorry we have got to run now, but I think you understand the exigent circumstances in which we are operating at the time.

Thank you so much for your participation.

[Whereupon, at 3:21 p.m., the Committee was adjourned.]

